

**ILLINOIS
COMMERCE COMMISSION**

**ANNUAL REPORT
ON ELECTRICITY, GAS, WATER
AND SEWER UTILITIES**

1998

January 31, 1998

The Honorable Jim Edgar
Governor, State of Illinois
State Capitol, Springfield, Illinois

Chairman and Members, Joint Committee on Legislative Support Service
313 State Capitol, Springfield, Illinois

Dear Governor, Chairman and Members of the Joint Committee:

We are pleased to submit to you the Commission's 1998 Annual Report on Electricity, Gas, Water, and Sewer Utilities. This Report covers the period of January 1, 1998, through December 31, 1998.

The Annual Report is submitted in compliance with the Public Utilities Act and specifically addresses the items cited in Section 4-304 of that Act.

Sincerely,

Richard L. Mathias, Chairman

Ruth K. Kretschmer, Commissioner

Richard E. Kolhauser, Commissioner

Karl A. McDermott, Commissioner

Brent S. Bohlen, Commissioner

THE YEAR IN REVIEW

1998

ENERGY

ELECTRIC RESTRUCTURING

Rules

The Illinois Commerce Commission adopted a series of rules designed to encourage competition in the electricity industry. New rules adopted in compliance with the electricity deregulation legislation include those dealing with utility responsibility for providing reliable service, joint marketing and operations between utility affiliates, and utility disclosure of fuels and environmental effluents to customers through bills.

Rulemakings continue to establish requirements for what is needed to certify Alternative Retail Electric Suppliers who wish to offer competitive electric service to large and smaller customers beginning in October 1999. Final rules are expected next summer. Rulemakings are proceeding to determine the terms and conditions for delivery services as well as development of a standardized tariff. Delivery services tariffs may be filed after March 1, 1999 and are subject to review and approval of the ICC.

Other rulemakings include development of standards of conduct for electric utilities and the functional separation of generation and delivery services.

Residential Rate Reductions

The Commission approved new tariffs filed by Commonwealth Edison Company and Illinois Power which resulted in a 15 percent reduction in rates for customers August 1, 1998.

Consumer Education Program

A Consumer Education Working Group, which will advise staff on informational needs of customers in the new deregulated electric market, has been appointed and is made up of representatives of consumer advocacy groups, utilities, government, and business. The Commission is required to provide customer education on electric deregulation under the new Customer Choice legislation.

Neutral Fact Finder

The Commission received the final report of the neutral fact finder charged with determining the market value of electric power during the transition to a competitive energy market. A docket has been opened to receive comments on the report and a proposal received to perform the study in 1999.

Independent System Operator

The Commission has appealed the Federal Energy Regulatory Commission's

conditional approval of a Midwestern Independent System Operator. While supporting creation of the ISO, the Commission contends that a system of larger independent system operators will ensure competition. The Commission urged the FERC to approve plans for a regional power supply market and to require that the ISO be solely responsible for all transmission related facilities in order to ensure non-discriminatory transmission service.

Fuel Clause Canceled

The Commission approved requests filed by AmerenCIPS, AmerenUE, Commonwealth Edison and Illinois Power Company to cancel fuel adjustment clauses and incorporate those charges into base rates. The Electric Deregulation Law of 1997 gave utilities authority to drop the fuel clauses, which had been used in the past to recover additional fuel charges or refund revenue to customers if generation fuel prices were lower than anticipated in a month. Commonwealth Edison was ordered to refund nearly \$42 million to customers and Illinois Power, \$2.7 million of imprudently incurred expenses in 1998.

Securitization

The Commission approved Illinois Power Company's petition for an order on transitional funding that would allow the utility to raise \$1.6 billion. The new money would be used to retire high cost debt and reduce interest payments. The Commission also approved Commonwealth Edison Company's proposal to issue \$3.4 billion in asset-backed securities.

ELECTRIC RELIABILITY

Hearings

The Commission continues to monitor electric utility response to energy demand this year, following a series of outages experienced by customers of Commonwealth Edison and Illinois Power Company this summer. The Commission met with the companies May 5, June 10, July 7, and again on October 27 to receive updates on power supplies.

AG Complaint Case

Complaint cases, filed by the Attorney General, against Commonwealth Edison and Illinois Power Company alleging failure to adequately maintain the electric system, are pending before the Commission.

Damage Claims

ICC staff will meet with Commonwealth Edison Company representatives to discuss progress on the company's efforts to develop a claim process for customers. Edison may seek a waiver of responsibility from the Commission and customers may appeal denial of claims to the Commission.

In a related matter, the Commission's Consumer Services Division will oversee development of a customer survey on electric service reliability, in compliance with the

new deregulation law.

FERC Report

Staff of the Federal Energy Regulatory Commission determined that wholesale electricity price spikes in the Midwest in the summer of 1998 were transitory and resulted from a combination of circumstances, including extreme periods of heat throughout the region, power plants out of service and summer storms that knocked out transmission and distribution services, rather than a manipulation of prices by power producers and marketers.

Wisconsin Seeks New Transmission Capacity

The Wisconsin Public Service Commission issued a report this summer suggesting that additional transmission capacity is needed to provide reliable service and the state may look to Illinois utilities to provide it.

New Transmission Lines Authorized

The Commission approved a Commonwealth Edison request for authorization to build a 138 kV power line in Kane and McHenry counties to serve the rapidly developing northwestern suburban area. The Commission also authorized Edison to proceed with construction of a line to serve Abbott Park near North Chicago.

Rate Cases

AmerenUE and AmerenCIPS have filed requests to increase natural gas rates for their Illinois customers. Both companies are seeking an 11 percent increase in revenue. A final decision in each case must be made by May 27, 1999.

Cogeneration

The Commission denied a petition for rehearing filed by QST Energy and Tower Leasing and let stand its original order in which it found that QST Energy Inc. failed to prove that Commonwealth Edison had acted in an anticompetitive manner when it blocked installation of cogeneration facilities in the Sears Tower. The Commission determined that it did not have the authority to order Commonwealth Edison to lease or sell its transmission/distribution facilities in the Sears Tower to an outside firm.

Billing Experiments

The Commission found that Commonwealth Edison's 1997 experimental billing program, in which retail establishments and school districts with multiple buildings, could consolidate electric service charges for billing purposes, is legal and indeed a true experiment that need not be expanded to include other types of businesses or buildings at this time. The new electric industry restructuring law provides specifically for experimental billing programs like the one offered by Edison.

Stricter Pollution Guidelines

In September, the U.S. Environmental Protection Agency announced a plan to reduce nitrogen oxide emissions from coal-fired power plants in the Midwest by 32%. Commonwealth Edison and Illinois Power have estimated that it will cost hundreds of

millions of dollars to install the equipment necessary to comply with the new standards.

TELECOMMUNICATIONS

Area Codes

The Commission issued an order in which it set out conservation methods designed to delay or avoid the need for a new area code in the 847 region as well as the Chicago metropolitan area. The conservation plan centers on returning unused numbers to a code administrator who would reallocate them in blocks of 1,000 instead of 10,000 as was previously done. Currently the new area code is not expected to be needed until April, 1999. The Commission directed that conservation measures should continue and asked for advance notice before the new area code, 224, is implemented. The number 224 will serve as the new area code when 847 numbers exhaust.

Lockheed Martin filed a petition with the Commission in November on behalf of Chicago area telecommunications companies requesting an area code relief plan for the 312, 630, 708, and 773 metropolitan areas. A docket, #98-0847, was opened to determine whether any new codes should overlay current codes.

Number Portability

The Commission approved a request by Ameritech Illinois to implement a new service, called Service Provider Number Portability Location Routing Number, on less than 45 days notice. The company did not propose establishing any charges for the service, choosing to wait until costs can be determined and prices set appropriately after a cost study is done.

Mergers

Initial testimony has been filed in the Ameritech and Southwestern Bell Telephone merger case. A final decision in the case is expected before summer, 1999. GTE and Bell Atlantic also filed a petition to merge and are seeking Commission authorization. Hearings in this case will be held in the summer of 1999.

Competition: Adjudication

The Commission ruled that Ameritech Illinois violated the terms of its interconnection agreement with Teleport Communications Group in one of the first complaints filed under the new SB 700 legislation. The amendments to the telecommunications law strengthened the Commission's enforcement authority in dealing with telecommunications company disputes in the evolving competitive market. The Commission determined that Ameritech failed to make reciprocal payments to TCG for local calls originated by end users on Ameritech Illinois' network and terminated with an information service provider subscribing to local exchange service with TCG as it should have under the terms of the interconnection agreement. The Commission ordered Ameritech to make payments with interest to the carriers.

Pricing

The Commission issued an order setting prices for various elements of the local telecommunications network, allowing local exchange competitors to purchase only

those parts of the system they may need to interconnect with the local carrier. Prices were set according to the total element long run incremental cost model (TELRIC) and a second phase of the case will determine appropriate pricing for unbundled network element combinations.

Local Measured Service

Customers of GTE living near Springfield have filed a complaint with the ICC seeking to expand their local calling area so that they can place untimed calls to their neighbors, schools, and local businesses. A similar complaint filed by the Citizens Utility Board has been consolidated with the case.

Notice of Inquiry

A Notice of Inquiry has been initiated by the Commission to collect information on whether and to what extent Ameritech Illinois' retail operations should be separated from network operations and if that separation would lead to greater competition among providers in local telephone service.

Carrier Termination

ICC staff are investigating the possibility of the need for a rule to govern carrier to carrier issues that affect customers. The review began after Ameritech notified staff that it would terminate service for customers of CalTech, a reseller, which had not paid its bills to Ameritech. Staff persuaded CalTech to notify its customers about disconnection so they could make a choice of an alternative carrier.

Alternative Regulatory Rate Cut

The Commission directed Ameritech to reduce rates by \$19 million as part of an annual review of prices in accordance with the 1994 Ameritech Alternative Regulatory order. The reductions in rates will be determined by the company for a variety of non-competitive services offered to residential, business and interexchange carriers. The Commission also has initiated a review of the five-year-old alternative regulatory program, to be completed next year.

Slamming Law

Consumer protection legislation addressing the unauthorized switching of long distance telephone service was signed into law. The new law provides that customers must be notified within ten days in writing if their service is switched to another carrier, and must have the opportunity to cancel if they choose. The law also prohibits the use of sweepstakes boxes to market changes in long distance service to unsuspecting customers.

WATER

Merger Planned

Philadelphia Suburban Corporation has announced plans to merge with Consumers Water Company, a move that would create the second largest investor-owned water utility in the country.

Rate Cases

The Commission gave final approval to new rates for water customers of Northern Illinois Water Company's Champaign, Pontiac and Sterling divisions. Rate increases were also approved for customers of Consumers Illinois Water in Danville, Kankakee and University Park.

Pipeline

The Commission gave the go ahead to Citizens Utilities Company to construct and operate a pipeline to carry Lake Michigan water to Homer Township and the Village of Bolingbrook in Will County. The Commission also set the price of water and ordered that the charge for transporting the water be reported separately from the commodity price.

TRANSPORTATION

Rail Safety

The Commission has continued to address the components of the governor's Rail Safety Initiative. Transportation staff have worked with the Illinois Department of Transportation staff to develop a common data base on interconnected rail crossings which is updated nightly. The Commission has spent nearly \$ 250,000 on a public information campaign with Metra to promote rail crossing safety

Federal-State Cooperation

The Commission reached an agreement with the U.S. Department of Transportation to integrate federal and ICC insurance and registration data for use at the country's borders.

Grade Crossing Protection

This summer, the Governor signed legislation that requires the Commission to develop annual and five-year project plans of rail crossing capital improvements which will be paid from the Grade Crossing Protection Fund. The bill authorizes the Commission to notify the public on crossing upgrade and repair project schedules as well as allocate the financial support for the projects more quickly for completion of the work. The number of rail/highway crossing accidents decreased by about 11 percent in 1998.

Midway Movers

The Commission found Midway Movers violated the Illinois Commercial Transportation Law and the ICC Administrative Code while operating as a household goods mover. The Commission ordered a \$129,900 fine based on the violations and directed that \$43,300 be paid in the first year. The remaining probated amount would be subject to audits in the next two years.

COMMISSION ACTIVITIES

Website

A redesign of the Commission's website has made it easier for users to access material and gain more detailed information. A new address, www.icc.state.il.us, was established to make identification of the Commission website more obvious to those wishing to use it.

Consumer Calls Increase

The ICC's Consumer Services Division reported 72,632 calls in 1998. The addition of a new computerized call routing system and additional counselors have allowed staff to receive and respond to more calls this year. The number of consumer complaints rose from 26,448 in 1997 to 31,427 in 1998-an increase of 18%.

Filings Increase

Filings with the chief clerk of the commission have risen over the last year. There were 7,956 filings in 1998, while there were 6,322 filings in 1997-a 26 percent increase.

Video Conferencing

Work has been completed on twin video conferencing facilities in the Chicago and Springfield offices, to enhance staff and Commission communication between the sites, including hearings.

Training Facilities

Construction has been completed on state-of-the art computer and technical training facilities in the Springfield office. The new training room will facilitate staff development and instruction.

Y2K

The Commission has set up a working group to track and examine utility responses to the Y2K problem. Utilities have been notified and will report the status of their efforts to ensure their systems are in Y2K compliance in the first quarter of 1999. Utilities were contacted and asked to report on the status of compliance on the Y2K project through 1998. The Commission set up a working group to track and examine utility responses to Y2K.

Gas Explosion Investigated

Commission staff began an investigation into the circumstances surrounding a Peoples Gas, Light and Coke Company gas pipeline explosion and fire at 1507 N. Clybourn in Chicago in October. A final report, based on interviews and on-site inspections of the accident site, is expected in early 1999.

TABLE OF CONTENTS

Introduction	
Statement of Mission	
Commission Organization	
The Year in Review	
1. General Review of Agency Activities	1
Review of Significant Commission Decisions.....	1
Pending Cases.....	1
Significant Regulatory Actions.....	1
Caseload by Types of Cases	2
Commission Budget and Personnel.....	4
Changes in Policies, Programs, and Regulatory Procedures.....	5
2. A Discussion of the Utility Industry in Illinois.....	7
Significant Changes and Trends.....	9
Availability of Services by Geographic Area.....	9
Electricity.....	9
Natural Gas.....	13
Water and Sewer Utilities.....	16
Financial Health of the Utility Industry.....	18
3. A Discussion of Energy Planning.....	21
Integrated Resource Planning.....	23
Cogeneration.....	23
4. The Availability of Utility Services to all Persons.....	25
Programs Designed to Promote the Affordability of Utility Services.....	27
The Financial Impact of Uncollectable Expenses.....	29
5. Implementation of the Commission's Statutory Responsibilities.....	33
Commission Reorganization.....	35
Construction and Rate Supervision.....	35
Construction Audits.....	35
Management Audits.....	36
Rate Moderation Plans.....	37
Cost-Based Rates.....	37
Decommissioning.....	38
Promulgation of Ex Parte Rules.....	39
6. Appeals from Commission Orders.....	41

Appeals Involving Public Utilities.....	43
Appeals Decided in 1998.....	44
7. Studies and Investigations Required by State Statutes.....	49
Emission Allowance Reports.....	51
Estimated Billing Practices	51
Cogeneration/Small Power Production.....	52
Feasibility of Wheeling in Illinois.....	52
Temporary Rate Increase.....	52
Study of CWIP.....	52
Cancellation Costs.....	52
Promotional Rates (Economic Development).....	52
8. Impacts of Federal Activity on State Utility Service.....	55
Commission Policy and Actions in FERC Proceedings	57
Developments in the Natural Gas Industry.....	57
Developments in the Electric Power Industry.....	57
Developments in the Illinois Regulatory Environment.....	58
National Developments.....	58
Federal Judicial Actions.....	58
Relevant Federal Legislation.....	58
9. Recommendations for Proposed Legislation.....	59
Appendix A: Summary of Significant Commission Decisions	63
Appendix B: Relevant Federal Legislation	71
Appendix C: Emission Allowance Reports	75

INTRODUCTION

The following report for calendar year 1998 was prepared to meet the requirements of the Public Utilities Act (PA-84-617). Section 4-304 of this Act instructs the Illinois Commerce Commission to prepare an annual report and provide copies to the Joint Committee on Legislative Support Services of the General Assembly, the Public Counsel, and the Governor.

Nine specific sections on which the Commission is asked to report are cited in the Act. The report is therefore divided into nine main parts. For the convenience of the reader, each part is given the same number designation as the corresponding subsection of the Public Utilities Act that it addresses.

During 1998, the following persons (listed alphabetically) served as members of the Illinois Commerce Commission.

Brent S. Bohlen

Terry S. Harvill

Richard E. Kolhauser

Ruth K. Kretschmer

Richard L. Mathias

Karl A. McDermott

Dan Miller

ILLINOIS COMMERCE COMMISSION

STATEMENT OF MISSION

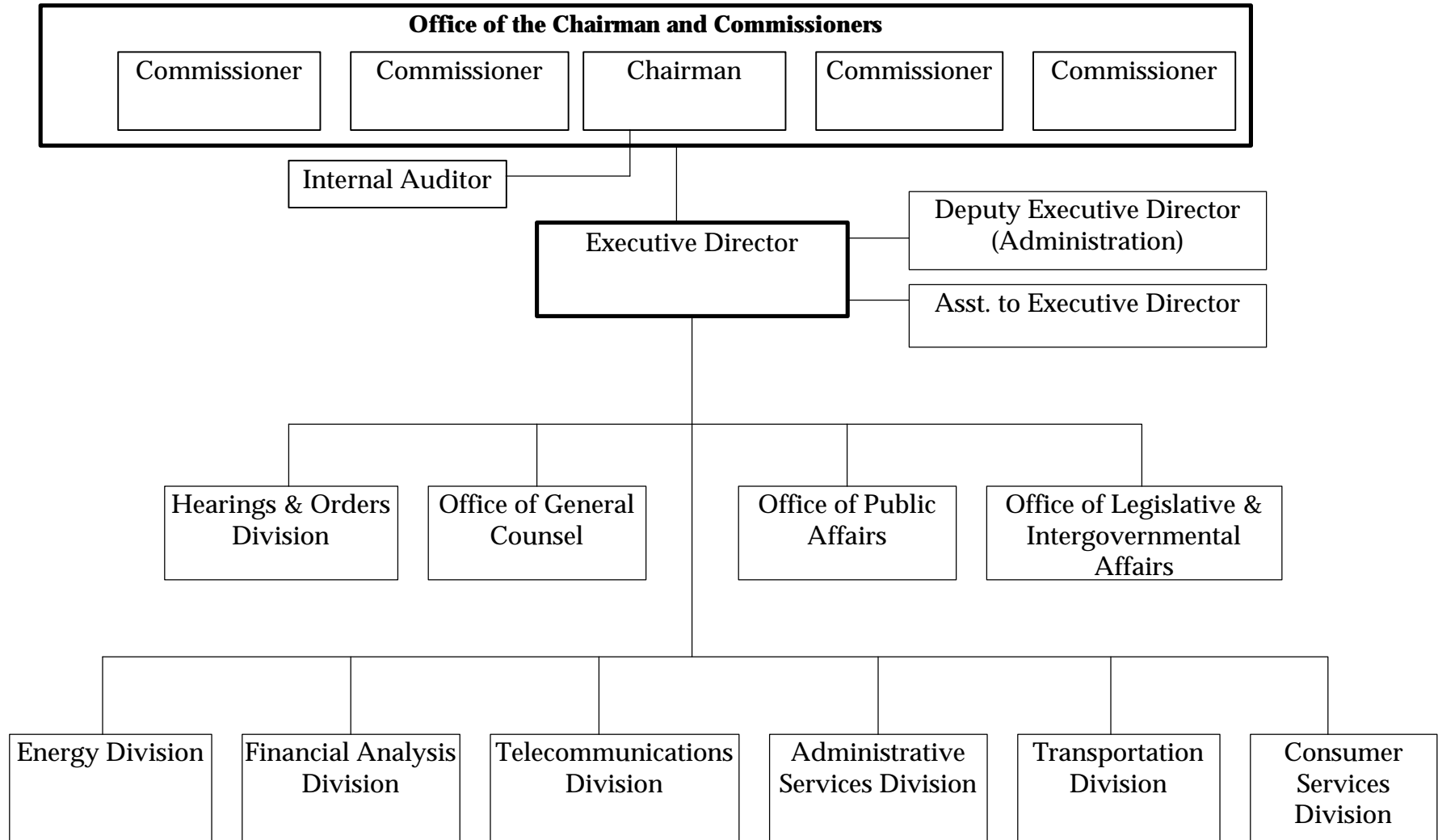
The Illinois Commerce Commission was created by the General Assembly for the purpose of regulating public utilities and commercial transportation. The structure and major functions of the Commission are derived from the Illinois Public Utilities Act (PA84-617), which states that the policy of the State shall be to continue the effective and comprehensive regulation of public utilities. The goals and objectives of such regulation are to ensure efficiency, environmental quality, reliability, and equity. The Commission regulates telecommunications services to the extent mandated by Article 13 of the Public Utilities Act. The Commission's regulatory responsibilities for transportation brokers and carriers are derived from the Illinois Commercial Transportation Law (PA84-796). In addition to these specific legislative mandates, the Commission fulfills all other responsibilities delegated to it through other Public Acts of the Illinois General Assembly.

The extensive revision of the Public Utilities Act, which became effective January 1, 1986, brought new challenges to the Commission. As envisioned by Illinois statutes, the Illinois Commerce Commission's role is to continue providing for safe, efficient, and reliable public utility service within Illinois at the least cost to ratepayers, while allowing the utility the opportunity to earn a fair rate of return. Instead of relying solely on rate proceedings filed by utilities as the principal vehicle for regulation, the revised Public Utilities Act mandated a more active role and permits the Commission to supplement revenue requirement regulation with alternative tools and procedures. It is thus the intention of the Commission to shift from passive oversight to active investigation to the extent resources permit.

The principal mission of the Illinois Commerce Commission remains fulfillment of its statutory obligation to regulate public utilities and commercial transportation in the State of Illinois. To fulfill this principal function, the Commission must provide access to various points of view and use a variety of avenues to communicate with the members of the General Assembly, public interest groups, private concerns, and public utilities. The Commission must continually seek to improve the competence of its staff and clarify its internal procedures to provide greater access to resources and improved analysis of information to insure arriving at the best possible decisions.

In addition, the Commission staff must seek out, develop, and utilize state-of-the-art regulatory information and techniques while striving to advance and protect the interests of the State and its citizens in appropriate regulatory, legislative, and judicial forums at the state and federal levels. Through all of its activities, the Commission endeavors to promote the public interest.

ILLINOIS COMMERCE COMMISSION ORGANIZATION CHART



**ILLINOIS
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1998

SECTION 1

General Review of Agency Activities

(1) A general review of agency activities and changes, including:

(a) a review of significant decisions and other regulatory actions for the preceding year, and pending cases, and an analysis of the impact of such decisions and actions, and potential impact of any significant pending cases;

(b) for each significant decision, regulatory action and pending case, a description of positions advocated by major parties, including Commission staff, and for each such decision rendered or action taken, the position adopted by the Commission and reason therefor;

REVIEW OF SIGNIFICANT COMMISSION DECISIONS

Appendix A of this report contains summaries of significant Commission decisions made and other regulatory actions taken in 1998. These summaries are by no means exhaustive, but they do provide a representative sampling of Commission actions. If the reader would like to know more about any of the cases discussed in this report, both the Commission's order and the record for decision are available for examination in the Commission's Springfield office. In any proceeding in which the Commission has entered an order on the merits, the best summary of positions advocated and reasons for the Commission's adoption of a position is contained in the order itself. Copies of these documents are available free of charge to public officers; others may obtain copies upon payment of the fee established in Section 2-201 of The Public Utilities Act. Selected orders and other Commission documents may be found on the Commission's web page (www.icc.state.il.us).

PENDING CASES

As noted above, Section 4-304 of the Public Utilities Act also requires a review of pending cases, including an analysis of the potential impact and a description of positions advocated by staff and major parties. The Commission feels that it is precluded from entering into discussions of pending issues or characterizing positions advocated by staff and parties in pending cases. The dangers of acting otherwise include the possibility of violating restrictions on ex parte communications (see Section 10-103 of the Public Utilities Act and 83 Ill. Adm. Code 200.710) and the possibility of later being held to have prejudged issues pending before the Commission as of the date of this report. The Commission's record in pending cases is available for examination through the Chief Clerk's Springfield office.

SIGNIFICANT REGULATORY ACTIONS

Significant actions taken by the Commission during 1998 are described in the summary statement, "The Year in Review," immediately preceding this section.

(1-c) a description of the Commission's budget, caseload, and staff levels, including specifically:

(i) a breakdown of type of case by the cases resolved and filed during the year and of pending cases;

A breakdown of the types of cases resolved and filed during the year and of cases which are still pending is given in Table 1-1 below.

TABLE 1-1 Types of Cases Before the Commission			
Case* Type	Cases Filed 1998	Final Orders 1998	Cases Pending 12/31/98
ABC	1	1	
ABN	42	53	17
ACE	3	3	
AEX	1	1	
AGO	16	19	11
AIC	2	6	
AMR	14	16	9
ASE	10	11	10
ASU	1	1	
ATC	4	4	
CAR	88	11	88
CBL	88	51	114
CCN	196	216	127
CIC			3
CIT	30	59	28
CMP	22	25	25
CSR	4	7	15
DEP		1	1
EMD	6	5	8
EPS		5	
ESA	8	9	12
FIN	17	26	8
MAC	3	2	1
MET	95	92	6
MIS	123	128	59
RAI	7	11	5
REC	31	57	46
RUL	10	10	13
SDW	5	11	7
TDD	5	4	
TRF	33	32	20
911	18	21	4
*An explanation of case types is given in the table on the following page.			

TABLE 1-2
Key to Case Types

ABC	Application for service territory boundary change.
ABN	Application to abandon service or status as a public utility or telecommunications carrier.
ACE	Approval of CUB enclosures
AEX	Application for approval of extended area service (telephone).
AGO	Application regarding Commission rules (Deviation from, compliance with, or change in).
AIC	Application regarding an "affiliated interest" matter (Section 7-101).
AMR	Application for approval of merger of utility or telecommunications carrier.
ASE	Application under Section 7-102 (license agreement, lease agreement, inter-utility transactions, and property sales).
ASU	Approval of sale of utility or telecommunications carrier.
ATC	Approval of transfer of control
CAR	Citation concerning failure to furnish annual report.
CBL	Complaint concerning billings, unfair charges, overcharges, etc.
CCN	Application for a certificate of public convenience and necessity or certificate of service authority.
CIC	Commission investigative case.
CIT	Miscellaneous citation proceeding.
CMP	Complaint other than billing or service.
CSR	Complaint as to service.
DEP	Application for approval of depreciation rates.
EMD	Application for approval of exercise of eminent domain
EPS	Energy Plans
ESA	Electric Suppliers Act cases.
FIN	Application under Section 6-102 (Bonds, notes, stocks, conditional sales contracts, debentures, stock dividends, etc.)
MAC	Miscellaneous accounting case
MET	Municipal Electric Tax
MIS	Miscellaneous.
RAI	Rate cases.
REC	Reconciliation cases concerning fuel adjustment clauses and purchased gas adjustment clauses.
RIC	Rate investigation case.
RUL	Rulemaking.
SDW	Solid waste energy facility qualification.
TDD	Telecommunication device for the deaf.
TRF	Tariff/Contract filings (Not gen. rate case)
911	Application under "9-1-1" (emergency phone number).

(ii) a description of the allocation of the Commission's budget, identifying amounts budgeted for each significant regulatory function or activity and for each department, bureau, section, division, or office of the Commission and its employees.

(iii) a description of current employee levels, identifying any change occurring during the year in the number of employees, personnel policies, and practices or compensation levels; and identifying the number and type of employees assigned to each Commission regulatory function and to each department, bureau, section, division, or office of the Commission.

The following table shows the Commission's budget and authorized headcount by divisions and funding source.

**TABLE 1-3
Budget and Headcount by Division
Fiscal year 1998**

	Public Utility Fund		Transportation Regulatory Fund		General Revenue Fund		Totals	
Division	Head Count	Budget \$	Head Count	Budget \$	Head Count	Budget \$	Head Count	Budget \$
Chairman & Commissioners	14	1,027,700	1	96,700	-	-	15	1,124,400
Public Utilities	225	17,793,800	-	-	-	650,000	225	18,443,800
Transportation	-	-	80	7,679,300	-	-	80	7,679,300
Single State Registraton	-	-	-	8,000,000	-	-	-	8,000,000
Totals	239	18,821,500	81	15,776,000	-	650,000	320	35,247,500

Head count is shown at the authorized level.
Budget \$ shown represent the FY98 appropriation

(1-d) a description of any significant changes in Commission policies, programs or practices with respect to agency organization and administration, hearings and procedures or substantive regulatory activity.

AGENCY ORGANIZATION AND ADMINISTRATION

There were no significant changes in Commission policies or programs with respect to agency organization or administration in 1998.

SECTION 2

A Discussion of the Utility Industry in Illinois

2. A discussion and analysis of the state of each utility industry regulated by the Commission and significant changes, trends and developments therein, including the number of types of firms offering each utility service, existing, new and prospective technologies, variations in the quality, availability and price for utility services in different geographic areas of the State, and any other industry factors or circumstances which may affect the public interest or the regulation of such industries.

SIGNIFICANT CHANGES AND TRENDS IN THE UTILITY INDUSTRY

For a discussion of changes and trends in the natural gas and electric power industry, see Section 8 of this report.

DISCUSSION OF THE QUALITY, AVAILABILITY, AND PRICE OF UTILITY SERVICES BY GEOGRAPHIC AREA

ELECTRICITY

Electric service to retail customers is provided in the State of Illinois by the following nine investor-owned public utilities.

Alliant
Ameren CIPS
Ameren UE
Central Illinois Light Company
Commonwealth Edison Company
Illinois Power Company
MidAmerican Energy Company
Mt. Carmel Public Utility Company
South Beloit Water, Gas and Electric Company

Electric service is also provided in Illinois through municipal systems and electric cooperatives, none of which are regulated by the Commission. Data as to the quality, availability, and price of electric service are not reported to the Commission by these providers and will not be a subject of this report.

Northern Illinois

Electricity is sold in northern Illinois by four electric utilities: Alliant, Commonwealth Edison Company, MidAmerican Energy Company, and South Beloit Water, Gas and Electric Company. Commonwealth Edison Company is by far the largest investor-owned electric utility in Illinois, serving 3,420,262 customers in 396 communities. Included in its service territory is the Chicago metropolitan area. MidAmerican Energy Company provides service to 83,974 customers in 42 communities in northwestern Illinois. Alliant has 10,973 customers in 13 communities also in northwestern Illinois. South Beloit Water, Gas and Electric Company provides electrical service to 7,256 customers in 8 communities adjacent to the Wisconsin border.

Utilities serving northern Illinois reported 13 major electric service interruptions during 1998. The table below provides details.

DATE	UTILITY NAME	CAUSE
------	--------------	-------

March 9, 1998	Commonwealth Edison Company	Ice Storm
May 28, 1998	Commonwealth Edison Company	Storm
June 18, 1998	Commonwealth Edison Company	Storm
June 18, 1998	MidAmerican Energy Company	Storm
June 26, 1998	Commonwealth Edison Company	Storm
June 28, 1998	Commonwealth Edison Company	Storm
June 29, 1998	Commonwealth Edison Company	Storm
July 19, 1998	Commonwealth Edison Company	Storm
August 24, 1998	Commonwealth Edison Company	Storm
August 25, 1998	Commonwealth Edison Company	Storm
September 7, 1998	Commonwealth Edison Company	Storm
September 20, 1998	Commonwealth Edison Company	Storm
November 10, 1998	Commonwealth Edison Company	Storm

Northern Illinois' electric generation capacity for the 1998 summer was barely enough to avoid involuntary reductions. The problems were caused by the retirement of Commonwealth Edison Company's Zion nuclear plant (2080 MW) and the shutdown of its LaSalle nuclear plant (2096 MW), as well as other nuclear outages throughout the Midwest. On June 25, Commonwealth Edison Company used interruptible load, voltage reductions (brownouts), public appeals and company curtailments to meet the peak demand. Commonwealth Edison Company was challenged by many problems with off-system purchases, including the cancellation of several large firm purchases.

The capacity outlook for summer 1999 is marginally better. One LaSalle unit is back online. The second LaSalle unit is expected back online by June 1999. Many new Independent Power Producers (IPPs) have announced new construction in Northern Illinois in 1999 and later years, improving the region's reliability outlook.

The price of electricity sold by these four utilities varied between utilities and within utilities depending upon the class of customer served. Table 2-1 on page 12 shows detailed price per Kwh information for all electric utilities under ICC jurisdiction.

The average price per Kwh for 1992-1997 for the four utilities is as follows:

	1992	1993	1994	1995	1996	1997	
Alliant	5.12¢	5.12¢	4.95¢	5.02¢	4.75¢	4.69¢	
Commonwealth Edison	7.91	7.39	7.32	7.49	7.53	7.38	
MidAmerican		6.84	5.76	6.18	6.60	5.47	4.92
South Beloit	4.98	4.94	4.79	4.58	4.30	4.44	

Central Illinois

Electric service is provided to central Illinois by three investor-owned electric utilities: Ameren CIPS, Central Illinois Light Company (CILCO), and Illinois Power Company (IP). Ameren CIPS and IP also provide service to southern Illinois. CILCO serves 194,333 customers in central Illinois in the Peoria area and 108 other communities. Ameren CIPS provides service to 561 communities across central and southern Illinois with a total customer population of 352,023. IP serves 559,228 customers in 421 Illinois communities in central and southern Illinois.

Utilities serving central Illinois reported three major electric service interruptions during 1998. Central Illinois Light Company reported one major storm-related service interruption on June 29, 1998. Illinois Power Company reported two major storm-related service interruptions: one on June 14, 1998 and another on June 29, 1998.

Central and southern Illinois' electric generating capacity for the 1998 summer was barely enough to avoid involuntary reductions. The continued shutdown of Illinois Power Company's Clinton nuclear plant (930 MW), as well as other nuclear outages through out the Midwest, created a capacity shortage. On

June 25, Illinois Power used interruptible load, public appeals, and company curtailments to meet peak demand. Many problems with off-system power purchases created challenges for Illinois Power Company. These problems were due, in part, to Illinois Power Company's plan to rely solely on the spot market to replace Clinton capacity.

The capacity outlook for summer 1999 is marginally better. Illinois Power expects the Clinton plant to be running before June 1999, but has decided not to count on Clinton's capacity for the summer. Instead, Illinois Power Company has asked the Commission for, and received, permission to install 176 MW of combustion turbine generating capacity in time for the 1999 summer peak demand. Illinois Power Company will also take its Havana Units 1-5 (230 MW total) out of mothballs and get them ready for the summer. Illinois Power Company has said it will make firm capacity purchases to replace the remainder of the Clinton plant capacity if it is not online by summer. Illinois Power Company's actions improve the region's reliability outlook for 1999.

The average price per Kwh for 1992-1997 for the three utilities is as follows:

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Ameren CIPS	5.58¢	4.68¢	4.89¢	4.97¢	4.93¢	5.09¢
CILCO	5.32	5.46	5.35	5.47	5.15	5.24
Illinois Power	6.38	5.61	5.79	6.15	5.76	5.63

Southern Illinois

Much of southern Illinois is served by Ameren CIPS and IP. Service areas for these companies were discussed in the previous section concerning central Illinois. Customer and price statistics given above include southern Illinois and will not be repeated in this section. Two other utilities will be discussed, as they operate only in southern Illinois.

Missouri-based AmerenUE provides electric service to 62,790 customers in 17 communities in southwestern Illinois. Mt. Carmel Public Utility Company serves 5,665 customers in 2 communities in southeastern Illinois.

Utilities serving southern Illinois reported four major electric service interruptions during 1998. Illinois Power Company reported two of those major service interruptions and they are further detailed in the Central Illinois section above. Ameren UE also reported two major storm-related interruptions: one on June 14, 1998 and one on July 22, 1998.

The availability of electricity should be improved for 1999. See the discussion in the Central Illinois section above.

The average price per Kwh for 1992-1997 for the two utilities is as follows:

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Ameren UE	4.51¢	4.63¢	4.26¢	4.29¢	4.21¢	3.90¢
Mt. Carmel	5.95	5.79	5.66	5.62	5.98	6.22

TABLE 2-1
ILLINOIS ELECTRIC UTILITIES
REVENUE PER KWH BY CLASS OF SERVICE BY COMPANY
(CENTS)
1997

<u>CLASS OF SERVICE</u>	<u>CILCO</u>	<u>AMEREN</u> <u>CIPS</u>	<u>COM</u> <u>ED</u>	<u>IL</u> <u>POWER</u>	<u>INTER-</u> <u>ST PWR</u>	<u>MID</u> <u>AMER</u>	<u>MT.</u> <u>CARMEL</u>	<u>SOUTH</u> <u>BELOIT</u>	<u>AMEREN</u> <u>UE</u>
RESIDENTIAL SALES	7.25	8.13	11.52	10.33	6.57	8.66	7.09	6.03	7.18
LARGE (INDUSTRIAL)	3.85	4.59	6.10	4.47	3.80	3.99	5.61	3.54	2.74
SMALL (COMMERCIAL)	6.61	6.80	8.33	8.24	6.44	6.28	7.48	5.26	5.21
PUBLIC STREET & HIGHWAY LIGHTING	5.21	6.06	7.02	7.02	14.96	8.60	0.00	10.15	8.80
OTHER SALES TO PUB- LIC AUTHORITIES	0.00	5.85	6.90	6.09	4.44	6.02	6.06	0.00	0.00
SALES TO RAILROADS AND RAILWAYS	0.00	0.00	7.12	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL SALES TO UL- TIMATE CUSTOMERS	5.72	6.57	8.40	6.95	4.89	6.30	6.28	4.52	3.90
SALES FOR RESALE	2.26	2.64	2.15	2.43	3.71	1.72	3.52	1.66	0.00
INTERDEPARTMENTAL SALES	7.54	2.79	0.00	0.00	15.79	0.00	0.00	9.11	0.00
TOTAL SALES OF ELECTRICITY	5.24	5.09	7.38	5.63	4.69	4.92	6.22	4.44	3.90

NATURAL GAS

Natural gas service is currently provided in the State of Illinois by the 14 investor-owned gas public utilities listed below:

- Alliant
- Ameren CIPS
- Ameren UE
- Central Illinois Light Company
- Consumers Gas Company
- Illinois Gas Company
- Illinois Power Company
- MidAmerican Energy Company
- Mt. Carmel Public Utility Company
- North Shore Gas Company
- Nicor Gas
- Peoples Gas Light and Coke Company
- South Beloit Water, Gas and Electric Company
- United Cities Gas Company

Additional gas service is provided in Illinois by municipal gas systems not subject to regulation by the ICC. For this reason, data concerning quality, availability, and price are not available to the ICC and therefore are not considered in this document.

Northern Illinois

Gas distribution and sale of natural gas is provided in northern Illinois by six public utilities as follows: Alliant, MidAmerican Energy Company, Nicor Gas, North Shore Gas Company, Peoples Gas Light and Coke Company, and South Beloit Water, Gas and Electric Company.

Nicor Gas is the largest gas distribution company in the state, providing service to 1,848,054 customers in 545 communities in northern Illinois. Peoples Gas Light and Coke Company, which serves the City of Chicago, is the second largest utility in Illinois with 825,473 customers. North Shore Gas Company serves 139,257 gas customers in 56 communities north of the Chicago area. Of the remaining three companies serving northern Illinois, MidAmerican Energy Company is the largest with 64,682 customers in 27 communities. Alliant serves 5,210 customers, and South Beloit Water, Gas and Electric Company serves 5,647 customers.

During 1998, natural gas service was available without major interruption to customers in the northern Illinois area. A considerable number of commercial and industrial customers chose to purchase gas directly from wholesale suppliers and use the local gas utility as a transporter. During 1999, sufficient supplies of natural gas are expected to be available to all customers.

As with the price of electricity, the price of gas varies among utilities and is generally determined by the supplier of natural gas that serves the local distribution company. Table 2-2 on page 15 shows price per therm by customer class for the Illinois gas utilities. For the northern Illinois utilities, the average price per therm for 1992-1997 is as follows:

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>		
Alliant	55.69¢		59.31¢		53.34¢	48.74¢	49.99¢	56.05¢
MidAmerican	41.03	45.74	48.61	43.07	50.90	56.05		
Nicor Gas	40.87	44.06	43.28	36.63	41.84	41.84		
North Shore Gas	54.12	61.74	63.07	50.30	56.97	60.32		
Peoples Gas		56.72	64.90	65.04	53.16	60.66	66.02	
South Beloit	55.06	49.76	48.96	45.52	44.44	58.63		

Central Illinois

Gas service is provided in central Illinois by three large distribution companies: Ameren CIPS, Central Illinois Light Company, and Illinois Power Company. CILCO provides gas service to 200,209 customers in 126 communities, the two largest being the Peoria and Springfield metropolitan areas. Ameren CIPS serves mostly rural areas in central and southern Illinois, providing service to 260 communities with a total customer population of 169,950. IP provides gas service to 393,877 customers in various parts of the state, ranging from Galesburg in west-central Illinois to areas in southwestern Illinois and including the East St. Louis metropolitan area.

During 1998, these three utilities provided continuous gas service without extended interruptions to firm customers. A number of large commercial and industrial customers of these utilities have started buying gas directly from wholesale gas producers. This action makes additional gas supplies available to those customers remaining on the local distribution system. Adequate gas supplies to all firm retail customers should continue to be available. In addition, new customers should have no problem securing gas supplies during 1999.

The average price per therm for the three utilities for 1992-1997 is as follows:

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>		
Ameren CIPS		59.48¢		54.04¢	55.34¢	53.76¢	57.16¢	51.29¢
CILCO	52.23	50.33	50.84	46.48	53.08	55.07		
Illinois Power	44.77	50.41	49.35	43.07	47.37	61.18		

Southern Illinois

Gas service is provided in southern Illinois by two large distribution companies; Ameren CIPS and IP discussed earlier, and the following five smaller distribution companies: Ameren UE, Consumers Gas Company, Illinois Gas Company, Mt. Carmel Public Utility Company, and United Cities Gas Company.

TABLE 2-2
ILLINOIS GAS UTILITIES
REVENUE PER THERM BY CLASS OF SERVICE BY COMPANY
1997
(CENTS)

<u>CLASS OF SERVICE</u>	<u>CILCO</u>	<u>AMEREN CIPS</u>	<u>CONS GAS</u>	<u>IL GAS</u>	<u>IL PWR</u>	<u>INTER ST PWR</u>	<u>MID AMER</u>	<u>MT CARMEL</u>	<u>NORTH SHORE</u>	<u>NICOR GAS</u>	<u>PEOPLES GAS</u>	<u>SOUTH BELOIT</u>	<u>AMEREN UE</u>	<u>UNTD CIT</u>
<u>Residential Sales</u>														
Without Space Heating	127.03	86.88	0.00	78.18	86.47	86.89	104.91	62.07	79.07	93.47	128.47	75.71	66.33	0.00
With Space Heating	63.32	61.97	56.00	61.90	69.18	58.33	57.88	55.52	61.17	48.14	65.62	58.09	61.29	683.55
<u>Commercial and Industrial Sales</u>														
Without Space Heating (Includes Seasonal Sales)	45.81	257.07	0.00	53.16	43.67	48.95	48.44	59.01	57.42	42.84	62.44	69.00	53.93	0.00
With Space Heating	48.38	43.48	52.50	56.82	51.84	54.53	53.52	48.38	55.46	47.98	58.79	57.21	54.60	607.46
Interruptible	0.00	32.15	0.00	43.46	0.00	37.30	0.00	0.00	0.00	0.00	0.00	56.04	41.97	547.53
Other Sales To Public Authorities	67.58	0.00	49.53	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	617.08
Total Gas Sales To Ultimate Customers	57.61	56.91	54.73	57.22	62.35	56.05	56.16	52.93	60.32	48.11	66.02	58.63	58.38	658.58
Interdepartmental Sales	30.81	40.36	0.00	0.00	27.10	56.86	33.59	0.00	0.00	0.00	0.00	71.41	0.00	0.00
Sales For Resale	0.00	25.47	47.82	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Gas Sales	55.07	51.29	54.07	57.22	61.18	56.05	56.05	52.93	60.32	48.11	66.02	58.63	58.38	658.58

Of these five, Ameren UE, Illinois Gas and United Cities provide gas service to more than 10,000 customers. Ameren UE serves 18,130 customers in the Alton metropolitan area in southwestern Illinois, Illinois Gas serves 10,328 customers in the Lawrenceville-Olney area, and United Cities provides service to 25,023 customers in a number of distinct service areas in southern Illinois.

During 1998, gas service to existing customers was adequate and without major interruption. For 1999, uninterrupted service is expected to continue, and it is anticipated that new customer demands can also be accommodated.

The average price per therm for the six utilities for 1992-1997 is as follows:

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Ameren UE	42.55¢	49.37¢	49.09¢	42.05¢	48.01¢	58.38¢
Consumers Gas	41.95	47.99	49.26	45.67	54.59	54.07
Illinois Gas	50.02	50.48	47.35	43.80	52.68	57.22
Mt. Carmel	39.42	45.65	48.07	47.86	44.14	52.93
United Cities	54.88	54.37	51.82	52.44	57.67	65.86

WATER & SEWER UTILITIES

The Commission currently regulates 35 water, 7 sewer, and 14 combined water and sewer investor-owned utilities, the same total number as at the start of 1998. Although the total number of utilities remained the same, one sewer utility was sold and one water and sewer utility was created. While the number of regulated utilities is a small percentage of the 1,880 public water suppliers and 750 public sanitary sewage systems with treatment facilities in the state, the investor-owned utilities provide water service to almost 1 million people. The investor-owned utilities are located in 34 counties concentrated in the Chicago metropolitan area with the number of customers served ranging from 22 to 145,000. Only eight utilities serve more than 1,000 customers.

There are currently considerably fewer regulated water/sewer utilities than in the past. The reduced number of regulated water and sewer utilities is partly the result of the overall Commission effort to reduce the number of small utilities. Small systems, due to their limited number of customers, typically have difficulties generating sufficient revenues to hire employees with the necessary expertise to function as a regulated utility.

The Commission has found that, in most cases, customers receive better service at lower rates from larger utilities due to the economies of scale that are realized. The Commission has promoted acquisition of small systems by larger municipally and investor-owned utilities and the merger of smaller systems into larger operations to take advantage of these economies of scale. When acquisitions and mergers are not practical, the possibility of the very small systems being operated as a mutual by a homeowners association is investigated. Mutual operations, which are exempt from Commission jurisdiction, often result in lower costs to customers for very small systems. In 1998, the one utility no longer regulated was acquired by a municipality.

The problems encountered by small systems were most evident in 1998. The Commission entered citations against seven small utilities alleging violations of the Public Utilities Act and Commission Administrative Codes. In the one case completed during the year, the Commission entered an Order requiring the Office of General Counsel to initiate legal action to place the system operated by Carroll Heights Utility Company in receivership. The utility has been placed in receivership and the Staff continues to monitor the situation. This is the first time the Commission invoked the relatively new authority contained in the Public Utilities Act allowing it to seek to have a system placed in receivership.

Again in 1998, a request for the privatization of a municipal water system was granted. Illinois-American Water Company reached an agreement with the Village of Shiloh and purchased the Village's

distribution system. American previously provided water on a wholesale basis to the Village but now service customers within the Village on a retail basis. This acquisition follows a national trend of privatization of municipally-owned systems.

During 1998, two mergers of large national water utilities with subsidiaries in Illinois were announced. The first was a merger of Consumers Water Company, parent of Consumers Illinois Water Company, into Philadelphia Suburban Water Company which would, if approved by the various regulatory agencies, create the second largest investor-owned utility in the country. A petition has been filed requesting approval of the Illinois Commerce Commission and the matter is currently pending. The second announced merger is the acquisition of National Enterprises Inc., the parent of Continental Water Company which owns Northern Illinois Water Corporation, by American Water Works Company, the largest investor-owned water company in the country and the parent of Illinois-American Water Company. A petition seeking Commission approval is expected in the near future.

Most of the larger water utilities regulated by the Commission serve municipalities adjacent to the state's major rivers, and the utilities use those rivers as their source of water supply. River supplies are generally adequate and the water, when treated, meets the criteria established by the Illinois Environmental Protection Agency except for nitrate levels in some rivers and wells which exceed the standards during periods of heavy water run-off from agricultural lands.

Northern Illinois Water Corporation is continuing a project in the Streator area to discuss the application of nitrogen based fertilizer with the farming community in an effort to reduce the introduction of nitrogen into the streams tributary to the Vermilion River. That project seems to be a success since the nitrate levels in the river have decreased and for three years the nitrate levels in finished water have been below the maximum standards. If this program is not successful and Northern must install treatment equipment to remove nitrates from the raw water, a substantial increase in the water rates charged to customers in the Streator system would result.

Consumers Illinois Water Company, Danville Division, has periodically experienced levels of nitrate in the raw water in excess of the maximum allowed by the Environmental Protection Agency and is conducting extensive studies to determine the least costly solution to resolving the problem. Possible solutions include test wells to locate a source of ground water to blend with its lake water supply in an attempt to reduce nitrate concentrations below the maximum standard. Another possible solution is the acquisition of land to allow side channel storage that can be filled from the river when nitrate levels are low. Water could then be withdrawn from this storage to blend with raw river water when the nitrate levels exceed the standard. Also being considered is treatment of the water to reduce nitrate levels to an acceptable level.

Most smaller systems serve unincorporated residential developments -- often a single subdivision -- and are typically located in the northern half of the state. Wells serve as the source of supply for most small systems. Well water quality varies considerably and can contain undesirable minerals such as iron, manganese and calcium that, while not injurious to health, do cause aesthetic problems. Aesthetic problems have caused several utilities located in the Chicago metropolitan area to obtain Lake Michigan water.

Citizens Water Resources Corporation was granted a certificate as a Water Common Carrier by Pipeline to construct and operate an eighteen mile pipeline to transport Lake water from Bedford Park to its affiliate, Citizens Utilities Company of Illinois for distribution to its Bolingbrook and Homer Township service areas and to the Village of Bolingbrook for distribution to customers in the Village-owned portion of the Bolingbrook water system. Citizens also hopes to convince a number of other municipalities in Will County, located generally south of Bolingbrook, to take service from the pipeline.

Because of the substantial costs involved in obtaining Lake Michigan water, customers are polled to determine whether they are willing to pay the cost of obtaining that water in cases where Lake water is sought to eliminate aesthetic problems. In virtually every instance where Lake water is available,

customers vote overwhelmingly in favor of efforts to acquire such a supply in spite of the substantially increased cost which often is in the range of \$3.00 per 1,000 gallons.

Water supplies were generally adequate in 1998. The Illinois-American Water Company has selected a location on high ground for a new water treatment plant to replace the Alton water treatment plant which experienced flooding during 1993. Review of that project is currently underway. The utility had planned to begin plant construction in 1998, but those plans have been delayed pending approval by the Pollution Control Board of a petition seeking the authority to continue discharging water treatment waste into the Mississippi River. Construction is now expected to commence in 1999 and be completed in 2000.

Only one investor-owned sanitary sewer system provides service to more than 5,000 customers. The other sewer systems are small, although one does provide service to a major manufacturing plant. Some of the systems have difficulty meeting the stream discharge standards established by the Illinois Environmental Protection Agency. Due to the prohibitive cost of constructing new sewage treatment plants for a limited number of customers, the smallest systems have, where possible, sought treatment from nearby regional plants. All sewer utilities located within the boundaries of the Metropolitan Water Reclamation District of Greater Chicago (MWRD) discharge their waste to the MWRD for treatment. The investor-owned sewer systems provide service primarily to residential customers and serve a very limited number of commercial and industrial customers.

Table 2-3 on page 20 is a comparison of bills for water usage by utilities providing service to 1,000 customers or more.

Bills for sewer service are typically flat rate charges since metering of sewage flow is uneconomical and impractical for residential customers. The rates vary considerably and depend on many factors, including the age of the treatment plant and treatment criteria for the receiving stream. In some instances, the rates do not reflect the cost of treatment which is ultimately recovered through taxation by a municipal corporation (such as the MWRD). Other utilities have recently completed new treatment plants, and rates in the range of \$40 to \$65 per month reflect the substantial investment in such facilities. Overall, rates for single family homes average \$25-30 per month.

Financial Health of The Utility Industry In Illinois

Bond ratings are the single most comprehensive and widely accepted measure of the financial condition of a business enterprise. Several independent financial research firms provide rating services which categorize corporate debt issues on the basis of risk. Virtually all of the major electric and natural gas utilities serving Illinois have ratings assigned to their bond issues.

There is no formula for determining bond ratings. In assigning ratings to a firm's debt, rating agencies give consideration to both qualitative and quantitative factors. For a public utility, the financial aspects reviewed by rating agencies can be separated into six criteria: debt leverage, construction and asset concentration risks, earnings protection, financial flexibility and capital attraction, cash flow adequacy, and accounting quality. Non-financial rating criteria include service territory characteristics, fuel supply and generating capacity, operating efficiency, regulatory treatment, and management.

The following table shows the nationwide electric utility industry average bond rating, as well as the ratings for the seven major electric utilities serving the State of Illinois. MidAmerican Energy, Alliant, and Ameren UE have the majority of their operations in other states.

Electric Utility Bond Ratings by Standard and Poor's
1993 to Present

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>Oct. 1998</u>
Electric Utility Industry Average	A-	A-	A-	A-	A-	A-
Alliant	A+	A+	A+	A+	A+	A+
Ameren CIPS	AA+	AA+	AA+	AA+	AA+	AA-
Ameren UE	AA-	AA-	AA-	AA-	AA-	AA-
Central Illinois Light Company	AA	AA-	AA-	AA-	AA-	AA-
Commonwealth Edison Company	BBB	BBB	BBB	BBB	BBB	BBB
Illinois Power Company	BBB+	BBB	BBB	BBB	BBB	BBB
MidAmerican Energy	AA	AA-	A+	A+	A+	AA-

Like the electric utilities, natural gas distribution companies receive ratings on their debt which reflect the individual company's financial condition. The table below presents bond ratings for the three major natural gas distribution utilities serving the State of Illinois and the average bond rating for the nationwide natural gas distribution industry.

Gas Utility Bond Ratings by Standard and Poor's
1993 to Present

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>Oct. 1998</u>
Gas Distribution Industry Average	A	A	A	A	A-	A-
Nicor Gas	AA	AA	AA	AA	AA	AA
North Shore Gas Company	AA-	AA-	AA-	AA-	AA-	AA-
Peoples Gas Light and Coke Company	AA-	AA-	AA-	AA-	AA-	AA-

Currently, none of the water utilities serving the State of Illinois have ratings assigned to their debt.

Table 2-3
ILLINOIS COMMERCE COMMISSION
COMPARISON OF WATER BILLS OF ILLINOIS PUBLIC WATER UTILITIES
FOR CUSTOMERS WITH 5/8" METERS
UTILITIES WITH 1,000 OR MORE CUSTOMERS

			WATER USAGE					
			NUMBER OF	4,000	6,000	8,000	10,000	15,000
	<u>UTILITY</u>	<u>DISTRICT</u>	<u>CUSTOMERS</u>	<u>GALLONS</u>	<u>GALLONS</u>	<u>GALLONS</u>	<u>GALLONS</u>	<u>GALLONS</u>
NORTHERN	Citizens Utilities	Well Water	17,900	\$18.46	\$23.14	\$27.82	\$32.50	\$44.20
		Lake Water	18,675					
		Alpine Heights	200	27.34	36.46	45.58	54.70	77.50
		Chicago Suburban	7,700	27.74	37.06	46.38	55.70	79.00
		DuPage County	6,800	31.46	42.64	53.82	65.00	92.95
		Fernway	2,000	26.26	34.84	43.42	52.00	73.45
		Moreland	175	16.98	20.92	24.86	28.80	38.65
		Waycinden	1,800	28.10	37.60	47.10	56.60	80.35
		Kankakee	18,452	19.17	22.958	26.75	30.54	40.01
	Consumers Illinois	University Park	1,539	18.49	21.766	25.04	28.31	36.49
		Northern Illinois	Sterling	6,400	20.23	24.49	28.74	33.00
	Whispering Hills		2,076	17.70	23.98	30.26	36.54	52.24
	South Beloit		1,500	9.73	12.80	15.87	18.93	26.60
	CENTRAL	Illinois-American	Peoria	47,589	24.12	29.42	34.71	40.01
Northern Illinois		Champaign	41,000	16.89	20.78	24.67	28.57	38.30
Consumers Illinois		Inter-State	16,694	25.35	31.60	37.85	44.10	59.73
Illinois-American		Pekin	13,292	20.19	23.84	27.48	31.13	40.24
Northern Illinois		Streator	7,700	22.14	27.31	32.48	37.66	50.59
United Water		Lincoln	5,867	21.31	27.76	34.21	40.67	56.80
Northern Illinois		Pontiac	4,100	25.99	32.07	38.15	44.23	59.43
SOUTHERN	Illinois-American	Southern	84,410	22.33	27.63	32.92	38.22	51.47

SECTION 3

A Discussion of Energy Planning

(3) A Specific Discussion of the Energy Planning Responsibilities and Activities of the Commission and Energy Utilities Including:

(a) the extent to which conservation, cogeneration, renewable energy technologies and improvements in energy efficiency are being utilized by energy consumers, the extent to which additional potential exists for the economical utilization of such supplies, and a description of existing and proposed programs and policies designed to promote and encourage such utilization;

(b) "A Description of each Energy Plan filed with the Commission pursuant to the Provisions of this Act and a copy or detailed summary of the most recent energy plans adopted by the Commission."

(c) "A Discussion of the Powers by which the Commission is implementing the Planning Responsibilities of Article VIII, including the description of the staff and budget assigned to such function, the procedures by which Commission staff reviews and analyzes energy plans submitted by utilities, Department of Energy and Natural Resources, and any other person or party."

**ENERGY PROGRAMS DIVISION
INTEGRATED RESOURCE PLANNING**

Integrated Resource Planning Program

Section 8-402 of the Public Utilities Act, which set forth the Commission's resource planning responsibilities, was repealed by P.A. 90-561, effective December 16, 1997.

COGENERATION

Commission Rule

The rules for the transfer of electric power between independent generating facilities and regulated electric utilities in Illinois are established by 83 Ill. Adm. Code Part 430. All utilities operating in Illinois must abide by these rules except for cooperatives and municipal utilities which are not regulated by the Commission.

The most important portion of the rules is the requirement that a utility must purchase cogenerated power at a price commensurate with the utility's avoided cost. Table 3-1 on page 24 lists 1998 avoided costs as filed annually by Illinois electric utilities.

Current Status

Section 8-403 of the Public Utilities Act requires the Commission to conduct a study of procedures and policies to encourage the full and economical utilization of cogeneration and small power production. Pursuant to Section 8-403, the Commission submitted reports to the Governor and General Assembly in 1986 and 1987.

Special Rates

Cogeneration/self generation displacement and deferral rates can be in the form of special contracts or designed as tariffs. In each case the Commission's position has been to promote economic cogeneration or self generation, while avoiding uneconomic bypass of the utility's system. When the cogeneration or self generation discount rate brings a customer's individual rate closer to the utility's marginal cost of providing service, uneconomic bypass is less likely to occur.

TABLE 3-1
Avoided Cost Rate Structure of Illinois Electric Utilities (1)
(1998)

		Summer Rates	Winter Rates
Central Illinois Light	On-Peak	1.74¢/Kwh	1.53¢/Kwh
	Off-Peak	1.38¢/Kwh	1.39¢/Kwh
Central Illinois Public Service	On-Peak	2.31¢/Kwh	1.58¢/Kwh
	Off-Peak	1.34¢/Kwh	1.38¢/Kwh
Commonwealth Edison	On-Peak	1.94¢/Kwh	3.05¢/Kwh
	Off-Peak	0.91¢/Kwh	1.46¢/Kwh
Illinois Power	On-Peak	2.59¢/Kwh	2.18¢/Kwh
	Off-Peak	1.44¢/Kwh	1.64¢/Kwh
Interstate Power	On-Peak	2.07¢/Kwh	2.19¢/Kwh
	Off-Peak	1.58¢/Kwh	1.56¢
Mid-American Energy	On-Peak	1.38¢/Kwh	1.20¢/Kwh
	Off-Peak	1.03¢/Kwh	1.04¢/Kwh
Mt. Carmel Public Utility	On-Peak	1.84¢/Kwh	1.84¢/Kwh
	Off-Peak	1.84¢/Kwh	1.84¢/Kwh
South Beloit Water Gas & Electric	On-Peak	2.26¢/Kwh	2.26¢/Kwh
	Off-Peak	1.32¢/Kwh	1.32¢/Kwh
Union Electric	On-Peak	2.31¢/Kwh	1.57¢/Kwh
	Off-Peak	1.35¢/Kwh	1.48¢/Kwh

Source: Annual Filings of Illinois electric utilities pursuant to 83 Ill. Adm. Code 430.110.

(1) Time differentiated rate pricing is shown at transmission or subtransmission levels where possible; additional credits available at lower voltages, loads, and times (except for Mt. Carmel). See each utility filing for exact avoided energy costs under specific conditions.

SECTION 4

Availability of Utility Services to All Persons

(4) A discussion of the extent to which utility services are available to all Illinois citizens including:

(a) Percentage and number of persons or households requiring each such service who are not receiving such service, and the reasons therefore, including specifically the number of such persons or households who are unable to afford such service.

The information necessary to determine the number of persons lacking utility service within the state is difficult to obtain. Part of the difficulty is that all utility companies within the state track accounts by residence and not by customer name. Thus, a utility could determine if a particular residence was disconnected and therefore no longer receiving service, but the utility would have no way of knowing whether that household regained service under another name in its own service territory or perhaps under the same name in a different service territory. In addition, persons disconnected might also move in with an acquaintance already receiving service or they might acquire service supplied by an electric co-operative or municipality over which we have no jurisdiction. Further, if the intent of the question is to ascertain the number of persons without access to a source of heat, the existence of non-utility sources such as wood stoves and kerosene heaters would further complicate the answer. Thus, the myriad of possibilities makes a truly accurate figure very elusive.

Although the Commission has limited resources available to determine the number of persons within the state lacking some type of utility service, and granting the uncertainty in accuracy of such a statistic, an estimate may be obtained by analyzing the disconnection and reconnection data provided to the Commission by all utilities.

To determine a rough estimate of the number of persons lacking utility service, one can look at the aggregate disconnection/reconnection figures for a 12-month period. The results for the period of October 1997 through September 1998 are as follows.

The average total residential class customer base equaled 6,813,240 households. In this class 245,458 accounts were reported to have been disconnected and 159,787 were reported to have been reconnected. This yields a 65 percent reconnection rate leaving 85,671 accounts not reconnected. The disconnected accounts represent 3.6 percent of the average residential customer base, while those accounts not reconnected represent a rate of 1.26 percent.

(4-b) a critical analysis of existing programs designed to promote and preserve the availability and affordability of utility services.

The Commission is aware of its obligations to minimize the dangers arising from unnecessary termination of gas and/or electric space heating service during the winter months. To minimize these dangers and be responsive to the needs of both Illinois consumers and the utilities which serve those consumers, the Commission has developed rules and regulations concerning the termination and reconnection of space heating service during the winter months. Many of these rules have since been enacted into law. In addition, the Commission has continued to refine its other rules regarding utility credit and collection activities to help Illinois utility consumers make timely payments on their obligations to utility companies and thus avoid termination of utility service. The following discussion is a synopsis of current regulations designed to promote and preserve the availability and affordability of residential utility services.

Temperature-Based Termination

If gas or electric service is the only source of space heating or if electricity is used to control the only space heating equipment such as an electric blower fan on a gas furnace, these services may not be disconnected on any day when the National Weather Service forecasts that the temperature for the next 24 hours will be 32° or below, or on a day before a holiday or weekend when the weather is forecast to be 32° or below any time before the next business day. Three utilities did not disconnect any residential customers for nonpayment from December 1, 1997, through March 31, 1998. Several possible reasons for the absence of disconnections for these companies include the complexities of the disconnection and notice provisions of Commission rules, as well as the public relations position taken by some of the utilities.

Preferred Payment Date

Current residential customers who receive certain types of benefit checks out of cycle with their utility bills are allowed up to ten days subsequent to the customer's regular due date to make payment without penalty. This has benefitted the low income, elderly, and unemployed customers since they are able to avoid late payment charges and, in many cases, avoid paying a deposit to the utility.

Deferred Payment Agreement

This agreement allows a customer who owes the utility for a past due bill to maintain utility service by paying the past due amount in installments over a period of four to twelve months while continuing to pay current bills as they become due. Of the customers whose service was reconnected during the winter of 1997 - 98 and who were given a payment plan, 57 percent were allowed 6 months or longer to pay the past due amount. Depending on the outstanding amount, the amount of the current bills, and the customer's income, this rule helps many customers, but it falls short of assisting those customers who simply have utility bills that are greater than their income can afford. Commission rules do allow for reinstatement after default and renegotiation of the payment agreement if the customer's financial circumstances change for the worse.

Reconnection

This rule provides that residential customers disconnected prior to the winter heating season and those customers disconnected during the winter heating season (December 1 through March 31) may be reconnected upon the payment of one third of the amount due to the company. If financial inability to pay this amount is shown, one-fifth of the amount owed may be paid. The customer then must enter into a payment plan to pay the balance of the outstanding amount owed to the utility. It should be noted that in many cases the amounts paid to have service restored are obtained through grants from community organizations or through the Low Income Home Energy Assistance Program (LIHEAP) administered by Department of Commerce and Community Affairs.

The reconnection rule further states that this provision is available between November 1 and April 1 of the current heating season; that reconnection under this provision cannot be used in two consecutive years; that the former customer must have paid at least one third of the amount billed subsequent to December 1 of the prior year; and that the program is not available if any evidence of tampering with the meter is discovered.

As required in the "winter reconnection" rule, on or about October 1, 1997, letters were sent to 41,285 former customers statewide who, according to utility records, were not then receiving heat related utility service. A total of 9,626 former customers requested that their service be reconnected. Of these, 1,504 customers were reconnected upon payment of the total bill and 6,238 were reconnected upon payment of a portion of the past due utility bill. Reconnection requests of 1,884 customers were denied. The reasons for denial are categorized as follows:

- 977 former customers failed to make a required down payment;
- 640 former customers failed to pay one-third of the amounts billed since December 1, 1995;
- 214 former customers had been reconnected under this rule last year; and
- 53 former customers resided where equipment tampering or diverted utility service was detected.

The above information indicates that 31,659 former customers did not respond to the inquiries posed by the utilities. It is impossible to determine whether these households are truly without utility service and, if so, why they do not have service.

Financial Assistance:

ICC-regulated utilities participate in the Low Income Home Energy Assistance Program (LIHEAP) administered by the Department of Commerce and Community Affairs. LIHEAP provides a one-time grant to eligible low-income customers.

(4-c) an analysis of the financial impact on utilities and other ratepayers of the inability of some customers or potential customers to afford utility service, including the number of service disconnections and reconnections, and cost thereof and the dollar amount of uncollectible accounts recovered through rates.

Uncollectible expenses for utilities represent revenues billed but not received for services rendered. Efforts are made to recover such revenues, but, after a certain period of time and effort, these amounts are charged as an expense and recovered in the regular rates charged to all customers.

The level of uncollectible expense is not perceived as a significant problem at the privately-owned water and/or sewer utilities in Illinois. Therefore, no effort has been made to analyze in detail the explicit data for those utilities.

To illustrate the amount of uncollectible expense for gas and electric utilities, the year 1997 was chosen. Data for 1997 were used for this analysis since these were the most recent data available at the Commission. The actual amount recovered in utility rates at any one time depends on the test year chosen for the utility's last rate case. For example, if a utility utilized a 1990 test year for its last rate case, the amount of uncollectible expense approved for the test year is embodied in that utility's rates until the next rate case. However, the level of uncollectible expense for the year of the utility's most recent annual report, 1997, was chosen because that year better indicates the current level of uncollectibles. For several utilities which have received recent rate increase, it is likely that a forecasted level of uncollectible expense was utilized which is even more current than 1997 data. In general, the level of uncollectible expense in a rate proceeding is a normalized amount determined through averaging techniques.

Electric Utilities

Total Uncollectible Expense for all companies was \$69,294,856 in 1997 as compared to \$52,976,838 in 1996. This represented 0.70% of Total Operating Revenues of \$9,844,428,986 in 1997 and 0.55% of Total Operating Revenues of \$9,654,085,927 in 1996. Commonwealth Edison Co. had the largest amount of Uncollectible Expenses with \$50,574,163 in 1997 and \$41,845,547 in 1996. This represented 0.72% of Total Operating Revenues in 1997 and 0.60% in 1996. The results are shown in Table 4-1 below.

Gas Utilities

Total Uncollectible Expenses for all companies was \$50,135,708 in 1997 as compared to \$45,081,584 in 1996. This represents 1.31% of Total Operating Revenues of \$3,814,257,598 in 1997 and 1.22% of Total Operating Revenues of \$3,706,194,942 in 1996. Peoples Gas Light and Coke Co. had the largest amount of Uncollectible Expenses with \$26,326,234 in 1997 and \$28,836,838 in 1996. This represented 2.46% of Total Operating Revenues in 1997 and 2.63% in 1996. The results are shown in Table 4-2 on page 31.

Table 4-1
Comparison of Uncollectible Expense to Total Revenues
Electric
1996-1997

Utilities	Revenues		% Uncollectibles to Total Revenues	
	<u>1996</u>	<u>1997</u>	<u>1996</u>	<u>1997</u>
Central Illinois Light Co.	\$1,474,165	\$338,298,400	\$322,967,541	0.36%
Ameren CIPS	2,208,353	700,516,897	725,570,245	0.55%
Commonwealth Edison Co.	41,845,547	7,073,086,936	6,934,547,492	0.72%
Illinois Power Co.	6,100,522	1,419,941,810	1,340,496,274	0.88%
Alliant *	13,207	19,818,661	17,950,046	0.07%
MidAmerican Energy Co. *	429,967	124,815,124	133,067,439	0.36%
Mt. Carmel Public Utility Co.	26,569	9,226,944	11,092,221	0.29%
So. Beloit Gas, Water & Electric Co.	53,272	9,635,097	9,027,214	0.52%
Ameren UE *	825,236	149,089,117	159,367,455	0.46%
Total	\$52,976,838	\$9,844,428,986	\$9,654,085,927	0.70%

* Illinois Uncollectible Expenses are a ratio of System-wide Uncollectible Expenses.

Table 4-2
Comparison of Uncollectible Expense to Total Revenues
Gas
1996-1997

Utilities	Uncollectibles		Revenues		Percent Uncollectibles to Total Revenues	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
Central Illinois Light Co.	\$1,220,443	\$1,358,176	\$219,060,689	\$202,823,417	0.56%	0.67%
Ameren CIPS	626,506	329,984	151,558,697	155,351,536	0.41%	0.21%
Consumers Gas Co.	34,000	32,460	4,794,278	5,296,124	0.71%	0.61%
Illinois Gas Co.	51,134	52,001	9,067,743	9,513,669	0.56%	0.55%
Illinois Power Co.	5,092,328	2,144,950	353,899,189	348,150,310	1.44%	0.62%
Alliant *	7,130	6,864	4,831,105	4,502,576	0.15%	0.15%
MidAmerican Energy Co. *	376,766	262,240	59,843,598	61,110,510	0.63%	0.43%
Mt. Carmel Public Utility Co.	15,876	14,984	2,654,515	2,378,530	0.60%	0.63%
North Shore Gas Co.	834,703	842,804	167,896,833	171,657,250	0.50%	0.49%
Nicor Gas	15,326,000	10,991,000	1,730,545,776	1,610,226,568	0.89%	0.68%
Peoples Gas Light and Coke Co.	26,326,234	28,836,838	1,069,772,933	1,098,130,483	2.46%	2.63%
So. Beloit Gas, Water & Electric Co.	25,543	22,940	5,465,926	4,602,320	0.47%	0.50%
Ameren UE *	121,955	122,574	14,265,676	12,880,637	0.85%	0.95%
United Cities Gas Co. *	77,090	63,769	20,600,640	19,571,012	0.37%	0.33%
Total	\$50,135,708	\$45,081,584	\$3,814,257,598	\$3,706,194,942	1.31%	1.22%

* Illinois Uncollectible Expenses are a ratio of System-wide Uncollectible Expenses.

SECTION 5

Implementation of the Commission's Statutory Responsibilities

(5) A detailed description of the means by which the Commission is implementing its new statutory responsibilities under this Act, and the status of such implementation, including specifically:

(5-a) Commission reorganization resulting from the addition of an Executive Director and hearing examiner qualifications and review.

During 1998, there were no organizational changes resulting from statutory responsibilities. Various changes made since the passage in 1985 of the Public Utilities Act have been reported in previous Commission annual reports. Ongoing organizational changes are reported on page 5.

(5-b) Commission responsibilities for construction and the rate supervision, including construction cost audits, management audits, excess capacity adjustment, phase-ins of new plant and the means and capability for monitoring and reevaluating existing or future construction projects.

CONSTRUCTION AUDITS

Statutory Requirements

Section 8-407(b) and 9-213 of the new Public Utilities Act grants the Commission the authority to conduct construction audits. Pursuant to Section 8-407(b), the Commission, after granting a certificate of public convenience and necessity for the construction of a new electric generating facility, is granted the authority to perform construction cost audits at any time during construction whenever the Commission has cause to believe that such an audit is necessary or beneficial to the efficiency or economy of construction.

Section 9-213 requires the Commission to perform an audit of the cost of new electric utility generating plants and significant additions to electric utility generating plants to determine if the cost is reasonable prior to including such construction costs in rate base.

Section 8-407(b) and 9-213 both grant the Commission the authority to engage independent consultants to perform these audits. If a construction audit is performed by an independent consultant, the cost will be borne initially by the utility, but shall be recoverable as an expense through normal ratemaking procedures.

Section 8-407(b) is a responsibility placed upon the Commission as a result of the new Act. Section 9-213 is identical to Section 30.1 of the old Act.

Commission Responsibilities

In order to comply with the Public Utilities Act, the Commission must monitor the major construction activities of all electric utilities within the state to assure that such construction is efficient and economical. The Commission is also required (Sec. 8-407(a)) to reevaluate the propriety and necessity at least every two years of each certificate of necessity issued to the construction of a new electric generating facility. In order to comply with the above responsibilities, the Commission has the authority to conduct construction cost audits.

Section 9-213 Activities

No activities were required during 1998.

Section 8-407(b) Activities

As this requirement affects only new construction, no activity has been required by Commission during 1998.

MANAGEMENT AUDITS

Statutory Requirements

The Commission has authority under Section 8-102 of the Public Utilities Act to conduct management audits of public utilities. The Commission may choose to conduct the audits with its own staff or it may contract with independent consultants to perform the management audits. Prior to initiating an audit of a utility, the Commission must determine that reasonable grounds exist to believe an audit is necessary or cost-beneficial.

The statute allows for the costs associated with the use of independent consultants to be borne by the utilities with recovery provided through the normal ratemaking process.

Commission Responsibilities

Prior to initiating a management audit or investigation of a utility, the Commission must have "reasonable grounds to believe that such audit or investigation is necessary to assure that the utility is providing adequate, efficient, reliable, safe, and least-cost service and charging only just and reasonable rates therefor, or that such audit or investigation is likely to be cost beneficial in enhancing the quality of such service or the reasonableness of rates therefor." The Commission shall "issue an order describing the grounds for such audit or investigation and the appropriate scope and nature of such audit or investigation."

No auditing activities were undertaken during 1998.

Excess Capacity and Used and Useful

Section 9-215, the Public Utilities Act (Act) gives the Commission the "power to consider, on a case by case basis, the status of a utility's capacity and to determine whether or not such utility's capacity is in excess of that reasonably necessary to provide adequate and reliable electric service". The Commission is also authorized to make adjustments to rates if a finding of excess capacity is made. This section conditions this authority for generating units whose construction programs started prior to the effective date of the current Act, January 1, 1986. That is, for generating units whose construction started prior to the effective date of the current Act, the Act requires that a determination of excess capacity or utility plant used and useful will be made from that which is appropriate under prior law.

No activities were required during 1998.

RATE MODERATION PLANS

The Public Utilities Act authorizes the Commission to consider the adoption of a rate moderation plan which would lessen rate impacts associated with new power plants coming into service.

During 1998, no new power plants were placed in service in Illinois. As a result, the Commission did not use its authority to adopt a rate moderation plan.

COST-BASED RATES

The Public Utilities Act considers cost-based rates an important component of equity for ratepayers. Specifically, the Act states that the cost of supplying public utility services should be allocated to those who cause the costs to be incurred [Sec. 1-102(d)(iii)]. The need to base rates on costs has increased as the utility environment becomes more competitive. A close relationship between rates and costs will discourage uneconomic bypass of the utility system by ratepayers. Uneconomic bypass can occur when rates are set at levels above cost-of-service since a customer can obtain service at the cost-of-service from another source. In such cases, customers often bypass the utility, thus reducing their cost for utility service. The utility then loses the contribution to fixed costs previously provided by those customers. Ultimately, rates to the remaining customers will be increased to make up for the loss of the contribution to fixed costs by customers that bypass. Such action is costly to the utility, ratepayers, and society as a whole.

The Commission made consistent progress towards the establishment of cost-based rates in utility rate cases conducted over the years 1993-1997.

A total of seven gas and three electric rate cases were filed during this period. The gas cases were filed by Iowa-Illinois gas and Electric (IIGE) which is now Mid-American Energy Company, Illinois Power Company (IP), Central Illinois Light Company (CILCO), People Gas Light and Coke Company (Peoples), North Shore Gas Company (North Shore), Northern Illinois Gas Company which is now Nicor Gas and Mt. Carmel Public Utility Company (Mt. Carmel). Electric rate cases were filed by IIGE, Commonwealth Edison Company (ComEd) and Mt. Carmel.

In the IIGE case (Docket Nos. 92-0292, 92-0357 Consolidated), the Commission determined that interclass cost subsidies should be reduced, subject only to the constraint that no customer class receive a total revenue increase of more than 10% and that individual rate elements should be more closely aligned to costs. The Commission accepted an interclass revenues allocation which reduced cost subsidies by 25% according to embedded costs and a more cost-based rate design.

In the IP case (Docket No. 93-0183), the Commission adopted an allocation of base revenues which effectively eliminated interclass subsidies at then-current rate levels.

In the CILCO case (Docket No. 94-0040), the Commission decision was to more closely align rates with costs through a 75% reduction in interclass subsidies and more cost-based rate designs.

In the North Shore and Peoples cases (Dockets no. 95-0031 and 95-0032), the Commission adopted the Average and Peak allocator method. The Commission also made further progress towards cost-based interclass revenue allocations.

In the Nicor Gas case (Docket No. 95-0219), the Commission again adopted the Average and Peak allocator method. The Commission adopted a revenue allocation that significantly reduced interclass subsidies and initiated cost-based rate designs.

In the ComEd case (Docket No. 94-0065), the Commission moved towards cost-based rates based on the equal percentage of marginal costs approach and individual rate elements for all rate classes closer to marginal costs.

In the Mt. Carmel rate case (Docket No. 97-0514) which encompassed both electric and gas operations, the Commission demonstrated its continued support of cost-based rates by accepting gas and electric rates based upon cost of service studies developed by the Commission Staff.

The Commission also adopted a cost-based set of rates for Illinois Gas Company (Docket No. 98-0298). The cost foundation was Staff's cost of service study and the approved rates reflect the maximum possible movement towards costs consistent with other ratemaking principles.

The current gas rate cases for Ameren CIPS (Docket No. 98-0545) and Ameren UE (Docket No. 98-0546) present further opportunities for the Commission to demonstrate its commitment toward cost of service principles. The Companies and Staff have proposed rates that reflect reasonable movement toward cost of service principles. Those proposals are now awaiting Commission action.

DECOMMISSIONING

On September 12, 1988, the Governor signed into law Public Act 85-1400 adding a new Section 8-508.1 to the Public Utilities Act. This required every utility owning a nuclear power plant (Commonwealth Edison, Illinois Power, Iowa-Illinois Gas and Electric, and Ameren UE) to establish trust funds to pay for the eventual decommissioning of the plants. These trust funds have been established and are being funded.

During 1998, the Commission monitored Federal Legislation relating to Nuclear Decommissioning Trusts as well as the performance of the trust funds.

The Energy Policy Act of 1992 ("EPAAct") affected nuclear decommissioning trust funds in two ways. First, the corporate income tax rate that is applied to all taxable trust fund earnings was reduced to 20% beginning in 1996. The EPAAct also provided for the elimination of the Black Lung Disability Trust Fund investment restrictions for qualified trust funds, thereby broadening investment options. All utilities have received authorization to invest a limited portion of their trust funds in common equity securities in order to improve the after tax returns and reduce future funding requirements from ratepayers.

Section 9-201.5 of the Public Utilities Act, which became effective January 1, 1995, authorizes an electric utility to establish a "decommissioning rate" to "reflect changes in, or additional or reduced costs of, decommissioning nuclear power plants." Pursuant to this provision, Commonwealth Edison received approval in its rate case Docket No. 94-0065 for its Rider 31 (Decommissioning Expense Adjustment Clause). The Company is required to annually file with the Commission, on or before February 28 of each year, its proposed decommissioning expense adjustment for the period beginning May 1 of that year and ending April 30 of the succeeding year. The Company's 1997 Rider 31 adjustment was ordered by the Commission in February 1998. Edison's 1998 rider filing requested no changes from what the Commission granted in the 1997 rider 31 proceeding. The 1998 Rider 31 filing was approved by the Commission in December 1998.

In Docket No. 95-0007, the Commission authorized Illinois Power to use either a site specific cost study or the NRC standard formula to estimate the decommissioning cost of the Clinton station. In Docket No. 96-0582, IP received permission to adjust its decommissioning rate to reflect a site specific cost estimate.

In Docket No. 95-0285, the Commission authorized MidAmerican Energy (formerly Iowa-Illinois Gas and Electric) to continue using its Nuclear Decommissioning Expense Rider under Section 9-201.5(d) of the Act. MidAmerican's 1998 rider adjustment is still pending.

Section 16-114 of the Public Utilities Act became effective on December 16, 1997. This section of the Act requires electric utilities which own nuclear generating facilities to file tariffs to collect decommissioning costs for every kilowatt-hour of electricity delivered or sold at retail in the utility's service area. The intent of this section is to make nuclear decommissioning costs a non-bypassable cost under customer choice. The section also requires that utilities which recover all or part of their decommissioning costs through base rates, to remove the cost from base rates and collect it through a decommissioning rider conforming to the requirements of section 9-201.5. Section 16-114 requires that utilities make their filings pursuant to the section by April 1, 1999.

On November 2, 1998, Commonwealth Edison made its filing pursuant to Section 16-114. Edison's filing removed all decommissioning expense from base rates to be collected through its decommissioning rider - Rider 31. The filing also modified the language in Rider 31 to make it applicable to all kWh of electricity sold or delivered. The Commission approved ComEd's section 16-114 filing in December 1998.

(5-c) Promulgation and application of rules concerning exparte communications, circulation of recommended orders and transcription of closed meetings.

The Commission's rules concerning ex parte communications (83 Ill. Adm. Code 200.710) and the circulation of recommended orders (83 Ill. Adm. Code 200.820) remained in effect in 1998 and were applied throughout the year. Closed meetings were transcribed verbatim as required by Section 10-102 of The Public Utilities Act.

SECTION 6

**Appeals from
Commission
Orders**

**(6) A description of all appeals taken from Commission orders,
findings or decisions and the status and outcome of such appeals.**

This section includes only appeals either filed in 1998 or upon which a judicial decision was received in 1998. Excluded are appeals involving motor carriers, rail carriers, or other regulated transportation and all non-appeal judicial actions, such as enforcement and collection actions, employment suits, or federal administrative and judicial actions, in which the Commission may have participated as plaintiff, defendant, intervenor, or amicus.

I. APPEALS INVOLVING PUBLIC UTILITIES FILED IN 1998

A. Under the Public Utilities Act, 220 ILCS 5/1-101 et seq.

	<u>Description</u>	<u>No. of Appeals</u>
1.	Appeals from grant or denial of certificates under Section 8-406	6
2.	Appeals from grant or denial of consumer complaints under Section 10-108	2
3.	Appeal from grant or denial of complaint under Sections 13-514 and 13-515	1
4.	Appeal from grant or denial of pipeline certificate under Article XV and related eminent domain application	1
5.	Appeal from grant or denial of tariffs involving real-time pricing under Section 16-107	1
6.	Appeal from rules concerning non-discrimination in service under Section 16-121	1

B. Under Other Utility-Related Acts

Appeals to Illinois Appellate Courts from complaints or investigations related to interconnection agreements under 47 USC 252.	2
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C. Status

All 1998 appeals are still pending, except for one of the Section 8-406 certificate appeals and the Sections 13-514 and 13-515 appeal, which were dismissed. {See Section II. A. 1. (b) and (d).}

II. APPEALS DECIDED IN 1998

A. Under the Public Utilities Act, 220 ILCS 5/1-101 et seq.

1. Cases dismissed without opinion and with no further action expected.

<u>Description</u>	<u>No. of Cases</u>
(a) Appeal from mergers, reorganizations and similar matters under Article VII	1
(b) Appeal from grant or denial of a certificate under Section 8-406	1
(c) Appeals from grant or denial of consumer complaints under Section 10-108	2
(d) Appeal from grant or denial of complaint under Sections 13-514 and 13-515	1

2. Cases in which decisions were rendered.

- (a) Ameropan Oil Corporation v. Illinois Commerce Commission, Commonwealth Edison Co. and City of Chicago
Illinois Supreme Court Docket Nos. 86014 and 86102
Illinois Appellate Court, First District
Docket No. 1-97-2762

Appeal from the grant or denial of certificate of public convenience and necessity under Section 8-406

The Illinois Commerce Commission had granted a petition of Commonwealth Edison Co. (ComEd) to relocate a 2,350-foot portion of one of ComEd's main transmission lines serving downtown Chicago. The relocation eliminated two crossings over the I-55. However, the relocation crossed near two oil storage tanks of Ameropan Oil Corp.

Ameropan argued that the relocation was unreasonably dangerous because the relocated transmission was near to its storage tanks. The Appellate Court affirmed the Commission's decision, finding that substantial evidence supported the Commission and that the relocated line met least cost and other statutory requirements.

Both Ameropan and the Commission have sought review by the Illinois Supreme Court. On October 6, 1998, Ameropan's Petition was denied by the Illinois Supreme Court. On December 2, 1998, the Illinois Supreme Court denied the Commission's petition for appeal as a matter of right or for leave to appeal.

- (b) Archer-Daniels-Midland Co., et al. (IIEC) v. Illinois Commerce Commission, Central Illinois Public Service Co., and Central Illinois Light Co.
Illinois Supreme Court Docket Nos. 84898 & 84899
Illinois Appellate Court, Third District
Docket No. 3-97-0170

Appeal from fuel cost riders under Section 9-220

Central Illinois Public Service Co. (CIPS) renegotiated a long-term coal supply contract with the cost savings passing through the Uniform Fuel Adjustment Clause (UFAC). CIPS sought to run certain of the related buy-out costs also through the UFAC. IIEC challenged the running of the buy-out costs through CIPS' UFAC.

On November 24, 1997, the Illinois Appellate Court reversed the Commission decision. The Illinois Appellate Court held that the buy-out costs are not a direct cost of fuel and, therefore, under the Commission's rules and accounting treatment, cannot be recovered through CIPS' UFAC. The Court also held that, because said buy-out costs cannot be recovered through the UFAC, recovery of the buy-out costs through the UFAC constitutes single-issue ratemaking.

On December 31, 1997, the Illinois Appellate Court issued a modified opinion, making any relief from the Appellate Court's decision prospective only. The Illinois Appellate Court on that same day denied rehearing. On March 1, 1998, the Illinois Supreme Court granted the Commission's and CIPS' Petitions for Leave to Appeal.

On December 3, 1998, the Illinois Supreme Court reversed the Appellate Court and affirmed the Commission's decision. The Illinois Supreme Court held that the buy-out costs were costs of fuel within the meaning of Section 9-220 of the Public Utilities Act, 220 ILCS 5/9-220 and the Commission's rules. The Illinois Supreme Court held that the rule against single-issue ratemaking has no application to this reconciliation of UFAC costs.

- (c) Commonwealth Edison Co. v. Illinois Commerce Commission, et al.
Illinois Appellate Court, Second District
Docket No. 2-97-0657

Appeal from mergers, reorganizations and similar matters under Article VII

Commonwealth Edison Co. (ComEd) sought Commission approval to reorganize itself, pursuant to Section 7-102 of the Public Utilities Act, 220 ILCS 5/7-102, in order to offer energy support services to energy users. Energy support services include such matters as the furnishing, designing, constructing, operating and managing of electrical power equipment, energy systems, and energy conversion systems; the selection, testing and installation of equipment used in such systems; and the auditing and monitoring of such energy systems. The Commission denied ComEd's proposals, finding that "ComEd's proposal to provide energy support services will not promote the public convenience."

ComEd appealed, arguing that the Commission improperly (1) applied a required balancing test; (2) based its decision on a section of the Public Utilities Act that had no bearing on the proceeding; and (3) relied on two findings that were not supported by the substantial evidence.

On March 31, 1998, the Appellate Court affirmed the Commission's order, with one Justice specially concurring in part and dissenting in part. The Court found that the Commission properly applied the balancing test under Section 7-102 of the Public Utilities Act, 220 ILCS 5/7-102. The Court found that the Commission's reliance on Section 9-230 of the Public Utilities Act, 220 ILCS 5/9-230, was not essential to the Commission's decision. Finally, the Court held that one of the contested findings related to nonessential issues and did not need to be reviewed. On the other contested finding, the Court rejected ComEd's contention that the evidence did not support a finding that ComEd enjoyed a monopolist's advantage if ComEd were allowed to enter the energy support services market. The special concurrence and dissent would have remanded the matter back to the Commission for additional findings on the balancing test, without reliance on Section 9-230 and additional findings on ComEd's market control in view of deregulation.

- (d) Lakehead Pipeline Co., Limited Partnership v. Illinois Commerce Commission, et al.
Illinois Supreme Court Docket No. 86057
Illinois Appellate Court, Second District
Docket No. 3-97-0524

**Appeal from denial or grant of pipeline certificates
under Article XV**

On April 7, 1998, the Illinois Appellate Court affirmed the Commission's order, which had denied a certificate in good standing as a common carrier oil pipeline to Lakehead Pipeline Co., Ltd. Part.(Lakehead), for its Line 14, running through DeKalb, Kane, Kendall, and Will Counties, Illinois. Line 14 is part of an interstate oil pipeline running from Canada to Mokena, Illinois.

Lakehead in its appeal contended that the Commission had no authority to deny any interstate oil pipeline a certificate in good standing under Section 15-401 (b) of the Public Utilities Act, 220 ILCS 5/15-401 (b). Lakehead argued that the application of the statutory requirements of Section 15-401 (b) to interstate oil pipelines resulted in an unlawful interference with interstate commerce in violation of the Commerce Clause of the US Constitution, Art . I, Sec. 8, Clause 3.

The Appellate Court found that the Commission's application of Section 15-401 of the Public Utilities Act, *supra*, did not offend Illinois law or interstate commerce. The Court found that the Commission's decision properly interpreted public need under the statute, was not an arbitrary departure from other Commission decisions, and was supported by substantial evidence and sufficient findings.

On July 16, 1998, the Appellate Court issued a Modified Opinion, making only editorial changes to its original Opinion. On that same day, the Court denied Lakehead's Petition for Rehearing. On October 6, 1998, the Illinois Supreme Court denied Lakehead's Petition to Appeal as a Matter of Right or, alternatively, Petition for Leave to Appeal.

- (e) People of the State of Illinois ex rel. James E. Ryan, et al.
v. Illinois Commerce Commission and Illinois Bell Telephone Co.
Illinois Appellate Court, Second District
Docket Nos. 2-97-0963, 2-97-0964 & 2-97-0965 (cons.)

**Appeals from grant or denial of application for alternative
form of regulation under Section 13-506.1 and from grant
or denial of rate charges under Section 9-201**

The parties sought to appeal the Commission's Order on Remand of Illinois Bell Telephone Company's application for an alternative form of regulation, including the establishment of rates. The Illinois Appellate Court had reviewed the order and remanded the case in 1996. *Illinois Bell Telephone Co. v. Illinois Commerce Commission*, 283 ILL App 3d 188 (2nd Dist, 1996).

In a published opinion, the Appellate Court dismissed the new appeals for lack of jurisdiction. The parties had mailed their Applications for Rehearing too late. The Appellate Court rejected arguments that the actual date of mailing should be ignored, that the Commission had a rule which applied, that the Commission could change the statutory timeframe by its rules, and that the doctrines of reversion of jurisdiction by the Court and retention of jurisdiction by the Commission are applicable.

- (f) Secor Elevator Co. v. Illinois Commerce Commission and Illinois Power Co.
Illinois Appellate Court, Fourth District
Docket No 4-97-0920

**Appeal from the grant or denial of consumer complaints
under Section 10-108**

On June 25, 1998, in a Rule 23 Order, the Illinois Appellate Court affirmed the Commission orders which had denied the complaint of Secor Elevator Co. (Secor). Secor had alleged that Illinois Power Co.'s practice of charging Secor for four points of delivery service violated Illinois Power's tariffs. Secor also claimed that certain inappropriate costs were included in Illinois Power's charges for delivery service.

The Appellate Court noted that Secor did not present its case to the Court clearly or appropriately. The Court nonetheless reviewed the claims and ruled that the Commission order had sufficient findings, was supported by substantial evidence, and had reasonably interpreted Illinois Power Co.'s tariffs.

B. Under other Utility Related Acts

1. Cases dismissed without opinion and with no further action expected.

Description

No. of cases

None

2. Cases in which decisions were rendered.

City of Chicago v. Illinois Commerce Commission, et al.

Illinois Supreme Court Docket Nos. 84864 and 84866

Illinois Appellate Court, First District

Docket No. 1-96-1810

**Appeal from the rulemaking under the Emergency Telephone System Act, 50
ILCS 750/0.01, et seq.**

On December 24, 1997, the Illinois Appellate Court reversed the Commission, in an appeal involving the amended rules under the Emergency Telephone System Act, 50 ILCS 750/0.01 et seq. The Court held that all issues involving surcharges under the Emergency Telephone System Act are beyond the Commission's jurisdiction and vacated 83 Ill. Adm. Code 725.800 and 725.805.

The arcane question on review involved how many network connections do billed subscribers of Centrex services have. 50 ILCS 750/2.12. The surcharge which can fund 9-1-1 services is applied to network connections. 50 ILCS 750/15.3(a). The Commission to end disputes on this and related subjects determined that there is one network connections for every ten Centrex lines based on substantial evidence.

The Appellate Court held that the Commission's authority under 50 ILCS 750/8 and 10 does not authorize the Commission to declare what constitutes a network connection for surcharge purposes. Thus, the number of network connections under state law is to be determined locally and variously by each public agency and telecommunications carriers throughout the State of Illinois.

Both the Commission and the Illinois Telephone Assn. filed Petitions for Leave to Appeal to the Illinois Supreme Court, which denied both of them on April 1, 1998.

SECTION 7

**Studies and
Investigations
Required by
State Statutes**

(7) A description of the status of all studies and investigations required by this Act, including those ordered pursuant to Sections 4-305, 8-304, 9-242, 9-244, and 13-301 and all such subsequently ordered studies or investigations.

Section 4-305: Emission Allowance Reports

Section 4-305 directs the Illinois Commerce Commission to collect from each public utility and each affiliated interest of a public utility owning an electric generating station, on a quarterly basis, information relating to the acquisition or sale of sulfur-dioxide emission allowances, as defined in Title IV of the Federal Clean Air Act Amendments of 1990. The commission is also directed to include such information in each of its annual reports, beginning with the 1993 annual report due January 31, 1994.

As of December 31, 1998, the Commission has received first, second, and third calendar quarter reports for 1998 from all seven of the utilities with generating units affected by the Clean Air Act: Central Illinois Light, Central Illinois Public Service, Commonwealth Edison, Illinois Power, Interstate Power, MidAmerican Energy Company, and Union Electric. The Commission has also received first, second, and third calendar quarter reports for 1997 from Electric Energy Inc., the affected utility affiliate. All utilities and affiliated interests subject to the Section 4-305 reporting requirements are currently in compliance.

Appendix C contains the fourth quarterly report for 1997 and the first three quarterly reports for 1998 for all reporting entities. Because the forms require the reporting entities to record a running-total of all allowance allocations and transactions, the third quarter reports contain all information regarding the allocations and transactions that have occurred during the first three quarters of 1998.

Section 8-304: Estimated Billing Practices

Under this section, the Illinois Commerce Commission is required to perform a comprehensive study of estimated billing practices and policies of the major regulated public utilities providing natural gas and/or electric services.

For purposes of this study, the Commission selected the following major regulated public utilities providing natural gas and/or electric services to Illinois households:

Central Illinois Light Company
AmerenCIPS
Commonwealth Edison Company
Illinois Power Company
MidAmerican Energy Company
Northern Illinois Gas Company
Peoples Gas Light & Coke Company
AmerenUE

These eight utilities comprise over 95 percent of the regulated utility service sales to residential customers in Illinois.

The companies have provided such information as a three year history of the total number of estimated bills broken down by customer class, time of year, geographic location, customer group, and frequency of consecutively estimated bills; the reasons for estimated billing; the costs of relocating and reading meters; the methods or formulas used for establishing the amounts of estimated bills; and the programs or instruments used to minimize the frequency of estimated bills.

An analysis of the data has been conducted and a draft of the report has been completed. It is expected that a report on the estimated billing study will be published in 1999.

Section 8-403: Cogeneration/Small Power Production

Section 8-403 states that the Commission shall conduct a study to encourage the full and economical utilization of cogeneration and small power production. In addition to the independent power generation aspect of the study, the Commission is also required to examine the wheeling of electricity between governmental agencies.

This study was completed in 1987. No activities were required in 1998.

Section 8-405.1: Feasibility of Wheeling in Illinois

Section 8-405.1 directs the Commission, in cooperation with the Illinois Department of Energy and Natural Resources, to investigate the major economic and legal issues surrounding the wheeling of electricity in Illinois and to report the results of its investigation to the General Assembly. In December 1987, the Commission submitted the report titled *Electric Wheeling in Illinois* to the General Assembly.

Section 9-202: Temporary Rate Increase

On October 1, 1987, 83 Ill. Adm. Code 330 became effective. Among other things, Commission rules set the necessary conditions for a temporary rate increase and provided for refunds with interest should the temporary rate increase granted exceed the permanent rate increase granted.

Section 9-214: Study of CWIP

The study was completed and was sent to the General Assembly on December 29, 1988. Please see the 1992 report, page 56, for details.

Section 9-216: Cancellation Costs

There are no plants under construction nor any requests for authority to construct new plants pending before the Commission, and, given that there is no due date for either the initiation or completion of this rulemaking, the Commission will initiate rulemaking as soon as practical, given the Commission's current workload and resources.

ECONOMIC DEVELOPMENT PROGRAM

The Commission's economic development activities as directly related to the Illinois Public Utilities Act (PUA) are coordinated by the Financial Analysis Division (FAD). A summary of the program since its inception may be found in the 1996 and previous Commission annual reports.

1998 Activities

During 1998, the Commission completed the following economic development-related activities, as part of its ongoing research/analysis activities related to the economic development process:

- the Commission's Electric Policy Committee discussed the issue of real-time pricing, including input from electric utilities, consumer groups, and alternative electric suppliers;

- following the completion of docketed proceedings, non-residential real time pricing tariffs were approved for all electric utilities, in compliance with Sections 16-102 and 16-197 of the revised Public Utilities Act.

- economic development impacts were analyzed in relation to "retail" wheeling (open transmission access) of electricity under access pilot programs for Central Illinois Light Company and Illinois Power Company;

- additional Commission rulemakings and decisions in the following areas will impact economic development:

- requirements for alternative electric suppliers
- implementation of delivery services tariffs
- continuation of the neutral fact finder process
- development of consumer education materials

The Commission coordinates its economic development activities with other state agencies, including the Department of Commerce and Community Affairs. Commission staff represent the Commission on inter-agency task forces that relate to the Commission's economic development activities. Individual economic development project proposals are reviewed in conjunction with appropriate staff from utilities, state and local government, and private businesses. Staff comments on tariff and/or rate filings by utilities and testimony in rate case proceedings serve to further articulate Commission policies in the area of economic development.

SECTION 8

**Impacts of
Federal Activity
on State Utility
Service**

(8) A discussion of new or potential developments in federal legislation, and federal agency and judicial decisions relevant to State regulation of utility service.

COMMISSION POLICY AND ACTIONS IN FERC PROCEEDINGS

The Federal Energy Regulatory Commission ("FERC") regulates the wholesale rates for electricity sales and transmission, the sale or resale of natural gas by interstate pipelines, and the transportation of natural gas by interstate pipelines. The primary goal of the Illinois Commerce Commission's FERC Intervention Program is to ensure that the rules, policies, rates, and terms and conditions of service that FERC establishes for natural gas pipeline transportation, bulk power sales, and electric transmission service are fair and reasonable for Illinois energy consumers. The activities of the FERC Intervention Program are discussed in more detail in the following sections.

DEVELOPMENTS IN THE NATURAL GAS INDUSTRY

In 1998, the natural gas industry conducted its fifth full year of operation following the adoption and implementation of FERC's Order 636. Order 636 was FERC's major natural gas policy initiative this decade. Order 636 required interstate natural gas pipelines to provide open access to the pipeline gas transportation system to shippers on a third party basis equal to the pipelines' own use of the system. Following Order 636, interstate natural gas pipelines act primarily as transporters of natural gas owned by others. This allows local distribution companies ("LDCs") to purchase gas from producers, marketers, and brokers, in addition to pipelines. Retail customers have also gained greater access to these market opportunities as LDCs have introduced and expanded their own local distribution transportation services for retail customers.

FERC continued to address secondary Order 636 natural gas policy issues in 1997. In July, FERC issued a Notice of Proposed Rulemaking (Dkt. No. RM98-10-000) and a Notice of Inquiry (Dkt. No. RM98-12-000) concerning both short-term and long-term interstate natural gas transportation policy issues. It is expected that comments on those notices will be submitted to FERC by numerous interested parties in 1999.

Illinois also continues to see major activity in new interstate natural gas pipeline construction proposals. These proposals are in response to continued growth in natural gas demand. For example, both Northern Border Pipeline Company and Alliance Pipeline Ltd propose projects to deliver abundant, and competitively priced, Canadian natural gas to Illinois customers.

DEVELOPMENTS IN THE ELECTRIC POWER INDUSTRY

The focus on implementing comparable and nondiscriminatory access to transmission service continued in 1998.

In 1996, FERC issued Order 888. This landmark administrative rule is intended to facilitate broad open access to transmission facilities and a nation-wide competitive wholesale electric power market. Order 888 requires each transmission-owning electric utility to have generally available open access transmission tariffs on file. Transmission owning utilities must make their transmission facilities available on a non-discriminatory basis to wholesale customers so that generation competitors are not excluded from the market. Order 888 also requires utilities to functionally separate wholesale power sales functions from operation of the transmission system. In making wholesale power sales, utilities must take transmission services under their own transmission tariffs and charge themselves the same price for transmission services as they charge third-party transmission customers.

In 1998, FERC turned its attention to regional transmission organizations. For example, in September, 1998, FERC approved the application of thirteen transmission-owning utilities (including most Illinois electric utilities) to form the Midwest Independent System Operator (Midwest ISO). The ICC actively monitored the development of the Midwest ISO and provided extensive comments to FERC on the proposal. Once the Midwest ISO is up and running, it is intended to independently manage the transmission facilities of all of its transmission-owning members.

In addition, FERC conducted a generic inquiry into independent system operator policy (PL98-5-000). The ICC submitted extensive comments to FERC on this proceeding advising FERC about the best ISO policy for Illinois in the context of the midwest region.

In November, 1998, FERC initiated a proceeding to consult with state commissions concerning regional transmission organizations. It is expected that regional transmission organization policy will be further developed in this proceeding in 1999.

In September, 1998, the Staff of the FERC issued a report on the Causes of Wholesale Electric Pricing Abnormalities in the Midwest During June 1998. Although these pricing abnormalities affected wholesale power markets in Illinois, they were not passed through to individual retail customers in Illinois.

SIGNIFICANT DEVELOPMENTS IN THE ILLINOIS REGULATORY ENVIRONMENT

During December 1997, the Governor signed into law the Electric Service Customer Choice and Rate Relief Law of 1997. The new statute provided for a radical departure from the manner in which Illinois electric utilities were required in the past to provide service to their customers. The new law provides for electric customers to be offered the choice of purchasing their electric power from their host public utility or from an alternative retail electric power supplier. The process of offering customer retail choice begins on the first of October 1999, with large industrial customers and certain other classes of customers, and concludes in 2002 when all electric power customers in Illinois will be able to choose their electric power supplier. The Commission has very significant obligations under the new law to adopt rules and regulations applicable to the new retail choice offerings, and embarked in 1998 on a very tight schedule of proceedings and investigation to pave the way for retail choice. The Commission proceedings commenced very early in 1998 and resulted in the rules governing relationships between electric utilities and their affiliates, and concerning the future reliability of electric power. The proceedings continued into 1999 with further rules in process involving certification of alternative retail electric suppliers, adoption of consumer education programs, and standards of conduct and functional separation rules for electric utilities, to mention but a few.

NATIONAL DEVELOPMENTS

Numerous electric industry restructuring bills were introduced in the second session of the 105th Congress. Bills were introduced in both the Senate and the House. Although numerous hearings were held on these bills, no comprehensive electric legislation was voted out in 1998.

FEDERAL JUDICIAL ACTIONS

There were no significant developments in federal judicial decisions relevant to State regulation of energy, water, and sewer utility services during 1998.

RELEVANT FEDERAL LEGISLATION

A listing of federal legislation relevant to the utility industry is in Appendix B.

SECTION 9

Recommendations for Proposed Legislation

(9) All recommendations for appropriate legislative action by the General Assembly.

The Commission's legislative agenda for the first year of the 91st General Assembly is currently being formulated. Proposals under consideration at this time include various amendments to the Public Utilities Act dealing with utility regulation. A detailed discussion of specific proposals currently under consideration would be premature at this time.

Appendix A

Summary of Significant Commission Decisions

Summary of Significant Commission Decisions

ELECTRIC UTILITY DOCKETS

94-0065 COMMONWEALTH EDISON COMPANY
Proposed general increase in electric rates.

This is the last ComEd rate case remanded back from the Appellate Court. The Court remanded the docket to the Commission regarding three issues: 1) ComEd's marginal cost study, the distinction between new and old customers; 2) the use of risk factors by Intervenor witnesses and untimely data; and 3) how, why and whether the Staff cost of capital witness added 54 basis points from his risk premium model to his DCF model. The Commission re-examined the evidence and determined that all Intervenor witnesses failed to use data which assessed current market conditions. The Commission also determined that its adoption of the Staff witness' cost of common equity, including the 54 basis points was proper. Finally, a more detailed discussion was provided regarding the distinction between new and old customers in the Order on Remand entered April 6, 1998.

95-0119 ILLINOIS COMMERCE COMMISSION, ON ITS OWN MOTION vs. COMMONWEALTH EDISON COMPANY
Reconciliation of revenues collected under fuel and gas adjustment charges with actual costs.

After oral argument, the Commission determined that part or all of four outages occurring at ComEd's Dresden Three, Quad Cities One and Two and Zion Unit 1 were imprudent. As a result, the Commission ordered over \$3 million in refunds to customers. The refunds were to be made through a special Rider.

96-0410 COMMONWEALTH EDISON COMPANY
Application for a certificate of convenience and necessity pursuant to Section 8-406 of the Public Utilities Act, and for an Order, under Section 8-503 of the Public Utilities Act, authorizing and directing ComEd to construct, operate and maintain new electric transmission lines and substations in Kane and McHenry Counties, Illinois.

On May 6, 1998, the Commission entered an Order granting ComEd a Certificate of Convenience and Necessity to construct operate and maintain a new electric transmission line and two new substations in Kane and McHenry Counties. This matter was highly contested by the Village of Huntley, Lake in the Hills and Intervenor Thomas Sullivan. Following extensive hearings and full Briefing, the Commission's Order concluded that there was an imminent need for the new transmission line. Additionally, the Commission found that the proposed route was reasonable and that the Certificate should be granted. The Order also granted the request for eminent domain authority pursuant to Section 8-503. The Order concluded that such authority was necessary due to the imminent nature of the need for reinforcement of the electric transmission system in subject area.

**96-0485 ILLINOIS COMMERCE COMMISSION, ON ITS OWN MOTION vs.
COMMONWEALTH EDISON COMPANY
Citation proceeding with respect to Rider CB.**

On May 6, 1998, the Commission determined that Rider CB was a valid pilot program and was not discriminatory. With the advent of the new law, specifically Section 16-106, the Commission determined that Rider CB was designed to “test and develop systems and technologies for measuring billing and aggregate loads.” Thus, it was proper for ComEd to file a new duplicative tariff which superseded Rider CB.

**97-0110 COMMONWEALTH EDISON COMPANY
Petition for decommissioning expense adjustment and for permission to file a
change to Rider 31.**

This docket is an offshoot of ComEd’s last rate case, Docket 94-0065, wherein the Commission did not fully approve ComEd’s proposed decommissioning costs, in part, due to ComEd’s failure to provide site-specific studies of its nuclear stations. For this case, specific on-site studies were provided and resulted in a proposed average contingency factor of 23% for ComEd’s nuclear stations. The Commission’s February 19, 1998 Order approved a \$1.3 billion increase in decommissioning expenses.

**97-0200 TOWER LEASING, INC. AND QST ENERGY, INC. vs. COMMONWEALTH EDISON
COMPANY
Complaint as to alleged violations regarding charges in the Sears Tower in
Chicago, Illinois.**

This docket is a complaint regarding the Sears Tower in Chicago. Complainants allege that ComEd discriminated against them by refusing to sell or lease its on-site electric distribution system so that Complainants could put in a co-generation unit to provide electricity to the Tower. Complainants contended that they could save \$1.5 million by allowing them to put in the co-generation project. Also, Complainants contend that ComEd has allowed other similar projects. The Commission’s May 20, 1998 Order determined that it could not require ComEd to sell or lease its distribution facilities and Complainants have failed to provide legal authority that the Commission has the authority to require ComEd to sell or lease its distribution facilities as a remedy for discrimination.

**98-0005 CITY OF CHICAGO, PEOPLE OF COOK COUNTY, CITIZENS UTILITY BOARD, et.
al.
Petition for Rulemaking on Service Reliability.**

**Consol.
98-0036 ILLINOIS COMMERCE COMMISSION, ON ITS OWN MOTION
Implementation of Section 16-125 of the Public Utilities Act.**

In these dockets, the Commission adopted rules related to the establishment of criteria against which the Commission may gauge the reliability of electric utilities in Illinois. Included in the rules are outage reporting requirements and rules establishing basic procedures to be followed in the event ComEd experiences outages or surges that may trigger liability under Sections 16-125(e) or (f) of the Public Utilities Act.

**98-0013 THE PEOPLE OF COOK COUNTY , THE CITY OF CHICAGO, THE
PEOPLE OF THE STATE OF ILLINOIS, THE CITIZENS UTILITY BOARD, AND THE
ENVIRONMENTAL LAW & POLICY CENTER OF THE MIDWEST
Petition for rulemaking on non-discrimination in affiliate transactions
for electric utilities.**

**Consol.
98-0035**

**ILLINOIS COMMERCE COMMISSION, ON ITS OWN MOTION
Implementation of Section 16-121 of the Public Utilities Act.**

In this rulemaking proceeding, the Commission adopted rules regarding non-discrimination in affiliate transactions for electric utilities, 83 Ill. Adm. Code 450. Part 450 implements Section 16-121 of the Public Utilities Act, which requires rules “governing the relationship between the electric utility and its affiliates, and ensuring non-discrimination in services provided to the utility’s affiliate and any alternative retail electric supplier, including without limitation, cost allocation, cross-subsidization and information sharing.” The rules address non-discrimination with regard to services provided under tariffs and transactions not governed by tariffs. In the interest of promoting a competitive market, the rules preclude an electric utility from jointly advertising or jointly marketing its goods or services with those of its affiliated interests in competition with alternative retail electric suppliers (“ARES”). Except in relation to corporate support and emergency support, the rules require that electric utilities and their affiliated interests in competition with ARES that provide services to customers within the utility’s service territory function independently of each other and not share service or facilities. With the same exception, the rules preclude utilities and their affiliated interests in competition with ARES from jointly employing or sharing the same employees. The rules also address the transfer of goods and services between an electric utility and its affiliated interests, require electric utilities to conduct biennial internal audits on transactions with affiliated interests, and prescribe penalties for violation of Part 450.

98-0194

**ILLINOIS COMMERCE COMMISSION ON ITS OWN MOTION
Implementation of Section 16-127 of the Public Utilities Act**

In this rulemaking, the Commission entered an order adopting 83 Ill. Adm. Code 421. Part 421, entitled “Environmental Disclosure,” implements Section 16-127 of the Public Utilities Act. Section 16-127 directed the Commission to adopt rules requiring electric utilities and alternative retail electric suppliers to disclose in customers’ bills, and to the Commission, the source of electricity generated (eg: nuclear, solar, coal, etc.) and the amount of carbon dioxide, nitrogen oxides, sulfur dioxide, and nuclear waste produced as a result of generation.

98-0278

**ILLINOIS COMMERCE COMMISSION ON ITS OWN MOTION
Implementation of Section 8-11-2 of the Illinois Municipal Code, as
amended by Public Act 90-561**

In this rulemaking, the Commission adopted revisions to 83 Ill. Adm. Code 418. These revisions stem from modifications made by Public Act 90-561 to Section 8-11-2 of the Illinois Municipal Code. The amendments to the Illinois Municipal Code change the municipal tax on electric utility gross receipts to a tax on end-users imposed on the basis of kilowatt-hours of electricity used or consumed within the municipality. In addition to the maximum tax rates established by the revised Section 8-11-2, the amendment also provides that the Commission shall promulgate alternative maximum tax rates. The revisions to Part 418 establish the process by which such alternative maximum tax rates are to be promulgated.

98-0319 COMMONWEALTH EDISON COMPANY
Application for transitional funding order pursuant to Section 18-103 of the Illinois Public Utilities Act, request for approval of transactions with affiliates pursuant to Sections 7-101, 7-102 and 7-204A, and approval of an instrument funding charge tariff.

ComEd sought approval for a series of transitional funding instruments with the corresponding imposition and collection of instrument funding charges totaling \$6.323 million. In its Order, the Commission found that each of the conditions set out in Section 18-103 of the Act were met and so approved a transitional funding order

98-0347 CENTRAL ILLINOIS PUBLIC SERVICE COMPANY
98-0348 ILLINOIS POWER COMPANY
98-0349 MIDAMERICAN ENERGY COMPANY
98-0350 UNION ELECTRIC COMPANY 98-0360MT. CARMEL PUBLIC UTILITY COMPANY
98-0360 MT. CARMEL PUBLIC UTILITY COMPANY
98-0361 CENTRAL ILLINOIS LIGHT COMPANY
98-0362 COMMONWEALTH EDISON COMPANY
98-0363 INTERSTATE POWER COMPANY
98-0364 SOUTH BELOIT WATER, GAS AND ELECTRIC COMPANY

Proposed Riders filed by each of the nine utilities.

Section 16-107 of the Public Utilities Act (a new provision of the Act added by Public Act 90-0561) requires electric utilities to have real-time pricing ("RTP") tariffs available to non-residential retail customers by October 1, 1998. Section 16-102 defines real-time pricing as charges for delivered electric power and energy that vary on an hour-to-hour basis. The Commission entered a series of orders in these dockets on September 23, 1998, which allowed the required RTP tariffs to be in place by the statutory deadline.

98-0488 ILLINOIS POWER COMPANY
Application for a Transitional Funding Order pursuant to Article XVII of the Public Utilities Act.

The Commission approved Illinois Power Company's ("IP") securitization proposal to issue transitional funding instruments ("TFI") in an aggregate amount not to exceed \$864 million. The maturity date of any series of TFI can be no later than December 31, 2008. The TFI net proceeds will be used to retire outstanding debt, preferred stock and common stock, and to pay issuance and transaction costs associated with the TFI issuance and the refinancing transactions. IP's securitization proposal includes the creation of intangible personal property in the amount of \$1,634 million, consisting of the right to collect instrument funding charges ("IFC") in that amount from its retail customers. This amount represents the total IFC billed over time, under a "worst case" rating agency stress test scenario, that is needed to pay principal of the TFI, interest of the TFI, servicing fees and other fees, costs and charges, and to fund any required reserves. IP presented evidence that the proposed TFI issuance and planned use of the proceeds would result in an overall reduction in its cost of capital.

GAS UTILITY DOCKETS

98-0279 CENTRAL ILLINOIS LIGHT COMPANY
Proposal to eliminate its Adjustment for Cost of Purchased Gas (PGA) and include gas charges in base rates.

This case involved CILCO's proposal to eliminate its PGA pursuant to Section 9-220(d) of the Act, as revised in 1997. The main issue was the method to be used in forecasting

the cost of gas to be incorporated into CILCO's base rates. In its order entered October 21, 1998, the Commission approved the forecasting method proposed by Staff. Following entry of the order, CILCO elected to keep its PGA in effect.

WATER UTILITY DOCKETS

96-0353 ILLINOIS-AMERICAN WATER COMPANY

Application for a Certificate of Convenience and Necessity to construct and operate an extension of its water distribution system in Monroe County, Illinois.

The Commission found that IAWC's proposal, as amended, was required by the public convenience and necessity under Section 8-406 of the Act. The application was opposed by the City of Columbia, which plans to obtain water for resale from the City of St. Louis by means of a main to be constructed under the Mississippi River, and by Fountain Water District. The City's rehearing petition was denied on January 12, 1998, and the case is on appeal.

97-0351 CONSUMERS ILLINOIS WATER COMPANY

Proposed general increase in water and sewer rates.

This is an unusual rate case involving five divisions of Consumers. While only one overall rate of return was determined by the Commission, each division has its own rate base, operating income and expenses which had to be separately determined. The most contested issues centered around Consumer's proposed standby charges. The Commission determined that Staff's proposed demand charge for standby customers based only on those costs associated with reserve capacity, rather than the total cost of water treatment was proper.

97-0664 CLARENDON WATER COMPANY 98-0045 NORTHERN HILLS WATER AND SEWER CORPORATION; 98-0046 DEL MAR WATER CORPORATION 98-0047 GREAT NORTHERN WATER COMPANY; 98-0048 LAKE WILDWOOD UTILITIES CORPORATION 98-0049 LAKE MARIAN WATER CORPORATION Proposed general increase in water rates.

These dockets all involved general rate increases as proposed by the various water companies, which are subsidiaries of Utilities, Inc.. Staff and Company worked diligently at resolving outstanding issues prior to the evidentiary hearings. As a result, there were few if any contested issues and these matters were concluded well within the statutory deadlines.

PIPELINES

96-0001 QUANTUM PIPELINE COMPANY

Application for authorization to exercise the power of Eminent Domain pursuant to Section 8-509 of the Public Utilities Act.

**Consol.
96-0318**

ILLINOIS COMMERCE COMMISSION

On Its Own Motion

Proceeding to reopen the evidentiary record of: Quantum Pipeline Company and Seagull Products Pipeline Corporation [Application for a certificate pursuant to 625 ILCS 5/18-8201 of the Illinois Commercial Transportation Law, authorizing construction, operation and maintenance of a pipeline in the State of Illinois as a common carrier by pipeline.] [P95-0001]

In this docket, the Commission reopened a previous Commission proceeding to examine the "public need" for an ethylene pipeline connecting two plants owned by the same company. The Commission concluded that the prior proceeding was reopened properly and that the company's representations that two companies had expressed some interest in using the transported ethylene as back-up supplies were insufficient to imbue the pipeline with a public nature, given the current availability of other sources of ethylene transportation.

Appendix B

Relevant Federal Legislation

RELEVANT FEDERAL LEGISLATION

ENERGY

HR 3976

Introduced as Public Utility Holding Company Act of 1998 by Representative Tauzen (R-LA) on May 22, 1998, HR 3976 repeals the Public Utility Holding Company Act of 1935, to enact the Public Utility Holding Company Act of 1998. HR 3976 has been referred to the Subcommittee on Finance and Hazardous Materials of the House Committee on Commerce.

S 2636

Introduced as Clean Power Plant and Modernization Act of 1998 by Senator Leahy (D-VT) on October 15, 1998, S 2636 promotes economically sound modernization of electric power generation capacity in the United States, to establish requirements to improve the combustion heat rate efficiency of fossil fuel-fired electric utility generating units, to reduce emissions of mercury, carbon dioxide, nitrogen oxides, and sulfur dioxide, to require that all fossil fuel-fired electric utility generating units operating in the United States meet new source review requirements, and to promote alternative energy sources such as solar, wind, and biomass. S 2636 has been referred to the Senate committee on Finance.

NUCLEAR WASTE DISPOSAL

HR 1270

Introduced as the Nuclear Waste Policy Act of 1997 by Representative Upton (R-MI) on April 10, 1997, HR 1270 legislates the development and operation of a repository for the permanent ecologic disposal of spent nuclear fuel and high-level radioactive waste by no later than January 31, 2002. The bill failed the Senate on cloture vote of 56 - 39, with 11 votes short of securing the passage of the bill. HR 1270 is the companion bill to S 104; differences between the two are still being worked out to substitute S 104 for HR 1270 without going to committee. Supporters are adamant about continuing this issue next year.

S 104

Introduced as the Nuclear Waste Policy Act of 1997 by Senator Murkowski (R-AK) on January 21, 1997, S 104 legislates the development and operation of a repository for the permanent ecologic disposal of spent nuclear fuel and high-level radioactive waste. S 104 was returned to the Senate by the House. S 104 is the companion bill to HR 1270; differences between the two are still being worked out to substitute S 104 for HR 1270 without going to committee. Supporters are adamant about continuing this issue next year.

TELECOMMUNICATIONS

HR 3050

Introduced as Slamming Prevention and Consumer Protection Act of 1997 by Representative Dingell (D-MI) on November 13, 1997, HR 3050 establishes procedures and remedies for the prevention of fraudulent and deceptive practices in the solicitation of telephone service subscribers. HR 3050 has been referred to the Subcommittee on Telecommunications, Trade, and Consumer Protection of the House Committee on Commerce.

HR 3888

Introduced as Anti-slamming Amendments Act by Representative Tauzen (R-LA) on May 14, 1998, HR 3888 amends the Communications Act of 1934 to improve the protection of consumers against "slamming" by telecommunications carriers. HR 3888 is the companion bill to S 1618. HR 3888 passed the House and has been received by the Senate.

HR 4801

Introduced as InterLATA Communication Improvements Act of 1998 by Representative Tauzen (R-LA) on October 10, 1998, HB 4801 ensures the restoration and preservation of State authority over intrastate telecommunications. HR 4801 has been referred to the Subcommittee on Telecommunications, Trade, and Consumer Protection of the House Committee on Commerce.

S 1618

Introduced as Anti-slamming Amendments Act by Senator McCain (R-AZ) on February 9, 1998, S 1618 amends the Communications Act of 1934 to improve the protection of consumers against "slamming" by telecommunications carriers. S 1618 is the companion bill to HR 3888. S 1618 passed the Senate and has been referred to the Subcommittee on Telecommunications, Trade, and Consumer Protection of the House Committee on Commerce.

